

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

## 2004-2005

Publication prepared  
under the authority of  
the Minister of Finance

ISSN 1488-9137  
ISBN 2-550-46961-5  
ISBN 2-550-46962-3 (PDF)

Legal deposit – 3<sup>rd</sup> quarter 2006  
Bibliothèque nationale du Québec

I am pleased to present this publication, which includes 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 and analysis of the financial position and operating results of the various agencies and enterprises.

Michel Audet  
Minister of Finance

Québec, June 2006



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| Fonds québécois de la recherche sur la nature et les technologies                                                   | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | 551         |
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| Immobilière SHQ                                                                                                     | Affaires municipales, Sport et<br>Loisir               | 2004-12-31                       | 629         |
| Institut de la statistique du Québec                                                                                | Finances                                               | 2005-03-31                       | 639         |
| Institut de tourisme et d'hôtellerie du Québec                                                                      | Éducation                                              | 2004-06-30                       | 646         |
| Institut national de santé publique du Québec                                                                       | Santé et Services sociaux                              | 2005-03-31                       | 656         |
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| Musée d'art contemporain de Montréal                                                                                | Culture et Communications                              | 2005-03-31                       | 762         |
| Musée de la civilisation                                                                                            | Culture et Communications                              | 2005-03-31                       | 779         |
| Musée national des beaux-arts du Québec                                                                             | Culture et Communications                              | 2005-03-31                       | 797         |
| Office de la sécurité du revenu des chasseurs et piégeurs cris / Cree<br>Hunters and Trappers Income Security Board | Emploi, Solidarité sociale et<br>Famille               | 2004-06-30                       | 815         |
| Office des professions du Québec                                                                                    | Justice                                                | 2005-03-31                       | 822         |
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| Régie des rentes du Québec                                                                                          | Emploi et Solidarité sociale                           | 2005-03-31                       | 870         |
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| Société de développement de la Baie-James                                              | Ressources naturelles, Faune et<br>Parcs               | 2004-12-31                       | 901         |
| Société de développement de la Zone de commerce international<br>de Montréal à Mirabel | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | (*)         |
| Société de développement des entreprises culturelles                                   | Culture et Communications                              | 2005-03-31                       | 915         |
| Société de la Place des Arts de Montréal                                               | Culture et Communications                              | 2004-08-31                       | 935         |
| Société de l'assurance automobile du Québec                                            | Transports                                             | 2004-12-31                       | 947         |
| Société des alcools du Québec                                                          | Finances                                               | 2005-03-26                       | 962         |
| Société des établissements de plein air du Québec                                      | Développement durable,<br>Environnement et Parcs       | 2005-03-31                       | 980         |
| Société des Traversiers du Québec                                                      | Transports                                             | 2005-03-31                       | 988         |
| Société d'habitation du Québec                                                         | Affaires municipales, Sport et<br>Loisir               | 2004-12-31                       | 1001        |
| Société du Centre des congrès de Québec                                                | Tourisme                                               | 2005-03-31                       | 1015        |
| Société du Grand Théâtre de Québec                                                     | Culture et Communications                              | 2004-08-31                       | 1027        |
| Société du Palais des congrès de Montréal                                              | Tourisme                                               | 2005-03-31                       | 1037        |
| Société du parc industriel et portuaire de Bécancour                                   | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | 1051        |
| Société du parc industriel et portuaire Québec-Sud                                     | Développement économique,<br>Innovation et Exportation | 2005-03-23                       | 1062        |
| Société générale de financement du Québec                                              | Finances                                               | 2004-12-31                       | 1068        |
| Société immobilière du Québec                                                          | Services gouvernementaux                               | 2005-03-31                       | 1091        |
| Société Innovatech du Grand Montréal                                                   | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | 1105        |
| Société Innovatech du sud du Québec                                                    | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | 1115        |
| Société Innovatech Québec et Chauchière-Appalaches                                     | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | 1126        |
| Société Innovatech Régions ressources                                                  | Développement économique,<br>Innovation et Exportation | 2005-03-31                       | 1137        |
| Société nationale de l'amiante                                                         | Ressources naturelles et Faune                         | 2005-03-31                       | 1146        |
| Société québécoise d'assainissement des eaux                                           | Affaires municipales et Régions                        | 2005-03-31                       | 1153        |
| Société québécoise de récupération et de recyclage<br>(Recyc-Québec)                   | Développement durable,<br>Environnement et Parcs       | 2005-03-31                       | 1163        |
| Société québécoise d'information juridique (SOQUIJ)                                    | Justice                                                | 2005-03-31                       | 1177        |
| Télé-Québec (Société de télédiffusion du Québec)                                       | Culture et Communications                              | 2005-03-31                       | 1184        |
| Tribunal administratif du Québec                                                       | Justice                                                | 2005-03-31                       | 1196        |

(\*) Not available at time of publication





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

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                                | <u>2005</u>               | <u>2004</u>             |
|----------------------------------------------------------------|---------------------------|-------------------------|
| <b>REVENUE</b>                                                 |                           |                         |
| Gouvernement du Québec contribution                            | \$2 774 300               | \$3 933 500             |
| Contribution – Other partners                                  | 7 614 856                 | 4 189 872               |
| Other revenue                                                  | 256 835                   | 22 846                  |
|                                                                | <u>10 645 991</u>         | <u>8 146 218</u>        |
| <b>EXPENDITURE</b>                                             |                           |                         |
| Subsidies awarded (Note 4)                                     | 6 235 431                 | 3 445 351               |
| Sponsorships and promotion                                     | 442 158                   | 438 933                 |
| Salaries and fringe benefits                                   | 2 319 315                 | 2 383 446               |
| Professional fees and administrative expenses                  | 533 520                   | 297 384                 |
| Communications                                                 | 1 181 457                 | 483 995                 |
| Training                                                       | 25 203                    | 12 784                  |
| Leasing costs                                                  | 175 948                   | 128 610                 |
| Supplies                                                       | 74 750                    | 38 075                  |
| Maintenance and repairs                                        | 10 995                    | 9 794                   |
| Change in the provision for collection risk loans              | (28 585)                  | 386 755                 |
| Bad debts                                                      | 67 859                    |                         |
| Financial expenses                                             | 968                       | 1 236                   |
| Depreciation of fixed assets                                   | 42 320                    | 42 227                  |
|                                                                | <u>11 081 339</u>         | <u>7 668 590</u>        |
| <b>(INSUFFICIENCY) SURPLUS OF REVENUE<br/>OVER EXPENDITURE</b> | <u><u>\$(435 348)</u></u> | <u><u>\$477 628</u></u> |

The notes are an integral part of these financial statements.

SURPLUS  
for the year ended March 31, 2005

|                                                     | <u>2005</u>               | <u>2004</u>               |
|-----------------------------------------------------|---------------------------|---------------------------|
| <b>OPENING BALANCE</b>                              |                           |                           |
| Previously established balance                      | \$1 914 676               | \$1 437 048               |
| Adjustment                                          |                           |                           |
| Adjustment of the provision for sick leave (Note 3) | (123 118)                 | (123 118)                 |
| Adjusted balance                                    | 1 791 558                 | 1 313 930                 |
| (Insufficiency) surplus of revenue over expenditure | <u>(435 348)</u>          | <u>477 628</u>            |
| <b>CLOSING BALANCE</b>                              | <u><u>\$1 356 210</u></u> | <u><u>\$1 791 558</u></u> |

The notes are an integral part of these financial statements.

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE****BALANCE SHEET**  
as at March 31, 2005

|                                                   | <u>2005</u>        | <u>2004</u><br>(Note 3) |
|---------------------------------------------------|--------------------|-------------------------|
| <b>ASSETS</b>                                     |                    |                         |
| <b>Current assets</b>                             |                    |                         |
| Consolidated Revenue Fund receivable              | \$469 404          | \$1 079 465             |
| Accounts receivable (Note 5)                      | 3 287 089          | 2 767 468               |
| Prepaid expenses                                  | 46 340             |                         |
| Loans redeemable in short term (Note 6)           | <u>205 512</u>     | <u>106 486</u>          |
|                                                   | 4 008 345          | 3 953 419               |
| <b>Loans</b> (Note 6)                             | 154 126            | 300 151                 |
| <b>Fixed assets</b> (Note 7)                      | <u>133 861</u>     | <u>100 969</u>          |
|                                                   | <u>\$4 296 332</u> | <u>\$4 354 539</u>      |
| <b>LIABILITIES</b>                                |                    |                         |
| <b>Current liabilities</b>                        |                    |                         |
| Accounts payable and accruals (Note 8)            | \$2 058 683        | \$1 876 970             |
| Revenue received in advance                       | 244 870            | 83 119                  |
| Short-term portion of the long-term debt (Note 9) | <u>4 263</u>       | <u>3 976</u>            |
|                                                   | 2 307 816          | 1 964 065               |
| <b>Long-term debt</b> (Note 9)                    | 7 390              | 11 653                  |
| <b>Provision for sick leave</b> (Note 10)         | <u>557 939</u>     | <u>520 286</u>          |
|                                                   | 2 873 145          | 2 496 004               |
| <b>EQUITY</b>                                     |                    |                         |
| Gouvernement du Québec contributed surplus        | 66 977             | 66 977                  |
| Appropriated surplus (Note 11)                    | <u>1 356 210</u>   | <u>1 791 558</u>        |
|                                                   | 1 423 187          | 1 858 535               |
|                                                   | <u>\$4 296 332</u> | <u>\$4 354 539</u>      |
| <b>COMMITMENTS</b> (Note 12)                      |                    |                         |
| <b>CONTINGENCY</b> (Note 13)                      |                    |                         |
| <b>SUBSEQUENT EVENTS</b> (Note 16)                |                    |                         |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Ghislaine Laroque  
Richard Lamarche

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**
**CASH FLOW**  
 for the year ended March 31, 2005

|                                                                                         | <u>2005</u>      | <u>2004</u>        |
|-----------------------------------------------------------------------------------------|------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                                                             |                  |                    |
| (Insufficiency) surplus of revenue over expenditures                                    | \$(435 348)      | \$477 628          |
| Adjustments for:                                                                        |                  |                    |
| Change in the provision for collection risk loans                                       | (28 585)         | 386 755            |
| Depreciation of fixed assets                                                            | 42 320           | 42 227             |
| Gain on disposal of fixed assets                                                        | (1 530)          | (1 530)            |
|                                                                                         | <u>(421 613)</u> | <u>905 080</u>     |
| Change in non-cash elements related to operations                                       |                  |                    |
| Increase in accounts receivable                                                         | (519 621)        | (2 098 601)        |
| Increase in prepaid expenses                                                            | (46 340)         | (46 340)           |
| Increase in accounts payable and accruals                                               | 181 713          | 287 195            |
| Increase in revenue received in advance                                                 | 161 751          | 28 858             |
| Increase in provision for sick leave                                                    | 37 653           | 64 899             |
|                                                                                         | <u>(184 844)</u> | <u>(1 717 649)</u> |
| Cash flows used for operating activities                                                | <u>(606 457)</u> | <u>(812 569)</u>   |
| <b>INVESTMENT ACTIVITIES</b>                                                            |                  |                    |
| Loans                                                                                   | (50 991)         | (309 997)          |
| Repayment of loans                                                                      | 126 575          | 3 679              |
| Acquisition of fixed assets                                                             | (75 212)         | (28 625)           |
| Proceeds from disposal of fixed assets                                                  | 1 530            | 1 530              |
| Cash flows used for investment activities                                               | <u>372</u>       | <u>(333 413)</u>   |
| <b>FINANCING ACTIVITIES</b>                                                             |                  |                    |
| Repayment of the long-term debt                                                         | <u>(3 976)</u>   | <u>(3 708)</u>     |
| <b>(DECREASE) INCREASE - ACCOUNTS RECEIVABLE<br/>FROM THE CONSOLIDATED REVENUE FUND</b> | <u>(610 061)</u> | <u>(1 149 690)</u> |
| <b>ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED<br/>REVENUE FUND, BEGINNING OF YEAR</b>    | <u>1 079 465</u> | <u>2 229 155</u>   |
| <b>ACCOUNTS RECEIVABLE FROM THE CONSOLIDATED<br/>REVENUE FUND, END OF YEAR</b>          | <u>\$469 404</u> | <u>\$1 079 465</u> |

The notes are an integral part of these financial statements.

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Agence de l'efficacité énergétique was established by the Act respecting the Agence de l'efficacité énergétique (R.S.Q., c. A-7.001) to see to the promotion of energy efficiency, in the context of sustainable development, for all types of energy, in all sectors of activity and for the benefit of all regions of Québec.

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

**2. ACCOUNTING POLICIES**

The Agence's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Contribution – Other partners**

Contributions received or receivable from partners and assigned to specific projects are carried over and transferred to revenue as the expenses they finance are incurred.

**Subsidies and loans**

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

**Fixed assets**

Fixed assets are recorded at cost and depreciated over their service life according to the straight-line method at the following rates:

|                           |         |
|---------------------------|---------|
| Automotive equipment      | 20%     |
| Furniture and equipment   | 20%     |
| Data processing equipment | 33 1/3% |
| Specialized equipment     | 10%     |

Equipment leased under capital leases is amortized using the same methods and the same rates as the other fixed assets.

**Provision for collection risk loans**

When there is deemed to be a risk that loans may not be recovered, the book values are calculated at their estimated realizable value. When the amounts and moment of realization cannot be estimated reasonably and reliably, the estimated realizable values are measured according to the management's judgement.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Agence lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Cash flows**

It is the Agence'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.

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**3. CHANGE IN ACCOUNTING POLICY**

The Agence noticed that a portion of the provision for sick leave had been omitted. The financial statements for the fiscal year ending March 31, 2004 have been adjusted, thereby increasing (decreasing) the following items:

|                          |             |
|--------------------------|-------------|
| Surplus                  | (\$123 118) |
| Allowance for sick leave | 123 118     |

**4. SUBSIDIES AWARDED**

|                                                      | 2005               | 2004               |
|------------------------------------------------------|--------------------|--------------------|
| Government enterprises and agencies                  | \$235 000          | \$61 215           |
| Private-sector enterprises                           | 2 001 947          | 554 367            |
| Municipalities and municipal housing bureaus         | 349 835            | 81 620             |
| Health, educational and social services institutions | 1 665 882          | 1 316 474          |
| Private-sector non-profit organizations              | 1 982 767          | 1 431 675          |
|                                                      | <u>\$6 235 431</u> | <u>\$3 445 351</u> |

**5. ACCOUNTS RECEIVABLE**

|                                                                  | 2005               | 2004               |
|------------------------------------------------------------------|--------------------|--------------------|
| Ministère des Ressources naturelles<br>et de la Faune receivable |                    | \$88 096           |
| Amount receivable from other partners                            | \$3 193 519        | 2 668 752          |
| Other                                                            | 93 570             | 10 620             |
|                                                                  | <u>\$3 287 089</u> | <u>\$2 767 468</u> |

**6. LOANS**

|                                                                            | 2005             | 2004               |
|----------------------------------------------------------------------------|------------------|--------------------|
| Loans, interest-free, repayable from<br>2005 to 2009                       | \$433 950        | \$495 432          |
| Loans, interest-free, repayable in royalties                               | 368 025          | 388 025            |
| Loan, interest-free, repayable on conditions<br>stipulated in an agreement | 108 006          | 122 107            |
| Amounts carried forward                                                    | <u>\$909 981</u> | <u>\$1 005 564</u> |

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**6. LOANS (cont'd)**

|                                                                                  | 2005                    | 2004                    |
|----------------------------------------------------------------------------------|-------------------------|-------------------------|
| Amounts brought forward                                                          | <u>\$909 981</u>        | <u>\$1 005 564</u>      |
| Provision for collection risk loans                                              |                         |                         |
| Loans, interest-free, repayable from 2005 to 2009                                | (126 068)               | (148 717)               |
| Loans, interest-free, repayable in royalties                                     | (368 025)               | (376 950)               |
| Loans, interest-free, repayable according to conditions stipulated in agreements | <u>(56 250)</u>         | <u>(73 260)</u>         |
|                                                                                  | <u>(550 343)</u>        | <u>(598 927)</u>        |
| Net loans                                                                        | 359 638                 | 406 637                 |
| Less: Loans redeemable in short term                                             | <u>205 512</u>          | <u>106 486</u>          |
|                                                                                  | <u><u>\$154 126</u></u> | <u><u>\$300 151</u></u> |

**7. FIXED ASSETS**

|                                 | 2005                    | 2005                     | 2004                    | 2004                  |
|---------------------------------|-------------------------|--------------------------|-------------------------|-----------------------|
|                                 | Cost                    | Accumulated depreciation | Net Value               | Net Value             |
| Automotive equipment            | \$69 200                | \$65 057                 | \$4 143                 | \$10 358              |
| Furniture and equipment         | 19 797                  | 19 797                   |                         |                       |
| Data processing equipment       | 140 796                 | 114 196                  | 26 600                  | 38 882                |
| Specialized equipment           | <u>104 894</u>          | <u>13 379</u>            | <u>91 515</u>           | <u>36 259</u>         |
|                                 | 334 687                 | 212 429                  | 122 258                 | 85 499                |
| Item leased under capital lease |                         |                          |                         |                       |
| Furniture and equipment         | <u>19 337</u>           | <u>7 734</u>             | <u>11 603</u>           | <u>15 470</u>         |
|                                 | <u><u>\$354 024</u></u> | <u><u>\$220 163</u></u>  | <u><u>\$133 861</u></u> | <u><u>100 969</u></u> |

**8. ACCOUNTS PAYABLE AND ACCRUALS**

|                              | 2005                      | 2004                      |
|------------------------------|---------------------------|---------------------------|
| Subsidies awarded            | \$1 278 100               | \$965 314                 |
| Accounts payable             | 440 264                   | 483 624                   |
| Salaries and fringe benefits | 62 616                    | 160 555                   |
| Vacation time                | <u>277 703</u>            | <u>267 477</u>            |
|                              | <u><u>\$2 058 683</u></u> | <u><u>\$1 876 970</u></u> |

# AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 9. LONG-TERM DEBT

|                                                                                                                                                               | 2005           | 2004            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
| Liability for fixed assets, bearing interest at<br>7%, repayable in monthly instalments of \$412,<br>including capital and interest, maturing in October 2007 | \$12 772       | \$17 716        |
| Interest included in payments                                                                                                                                 | (1 119)        | (2 087)         |
|                                                                                                                                                               | 11 653         | 15 629          |
| Minus: Portion maturing in the short term                                                                                                                     | (4 263)        | (3 976)         |
|                                                                                                                                                               | <u>\$7 390</u> | <u>\$11 653</u> |

The minimum amounts payable under this capital lease for the next three fiscal years are as follows:

|      |                 |
|------|-----------------|
| 2006 | \$4 944         |
| 2007 | 4 944           |
| 2008 | 2 884           |
|      | <u>\$12 772</u> |

## 10. FUTURE FRINGE BENEFITS

### Pension plans

The staff members of the Agence participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Agence's contributions charged to the year-end statement amount to \$80 073 (2004: \$73 189). The Agence's liability towards these Government plans is restricted to its contributions as an employer.

### Provision for sick leave

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Opening balance               | \$520 286        | \$332 269        |
| Adjustment (Note 3)           |                  | 123 118          |
| Charge for the year           | 79 724           | 107 888          |
| Benefits paid during the year | (42 071)         | (42 989)         |
| Closing balance               | <u>\$557 939</u> | <u>\$520 286</u> |

## 11. APPROPRIATED SURPLUS

Subsequent to management's decision, the Agence appropriated part of its surplus (\$141 500) to meet its commitments specific to the energy efficiency promotion program. It also slated \$1 214 710 for maintaining sufficient activity and ensuring itself of revenue from partners in keeping with contribution agreements.

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**12. COMMITMENTS**

The Agency is committed to paying subsidies under the programs it administers. However, these subsidies are conditional upon the appropriations allocated by Parliament. The Agency's commitments as at March 31, 2005 are as follows:

|      |                  |
|------|------------------|
| 2006 | \$924 080        |
| 2007 | 15 000           |
|      | <u>\$939 080</u> |

**13. CONTINGENCY**

Public-sector employees' collective agreements expired on June 30, 2003. On January 9, 2004, the Superior Court handed down a ruling in the wage equity file. On June 15, 2004, the government released the budgetary framework of its remuneration policy, which limits the wage adjustment in all public and parapublic sectors to 12.6% over 6-year period, i.e. from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized employees, management health professionals as well as the wage equity file. The government is currently negotiating with the various associations. Consequently, the monetary impact remains undetermined for the Agence de l'efficacité énergétique.

**14. 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 either joint control or significant influence by it. The Agency 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.

**15. FINANCIAL INSTRUMENTS**

The short-term fair value of financial instruments is equivalent to their book value, given that they mature in the near future. The fair value of loans cannot reasonably be assessed due to the absence of a market for this type of loan.

The fair value of the long-term debt is determined using the current market value of future cash flows under current financing agreements using interest rates available on the market to the entity for loans involving similar conditions and terms.

**Fair value**

The following table presents the fair value of the Agency's long-term financial instruments.

|                | 2005            |                 | 2004            |                 |
|----------------|-----------------|-----------------|-----------------|-----------------|
|                | Book value      | Fair value      | Book value      | Fair value      |
| Long-term debt | <u>\$11 653</u> | <u>\$10 724</u> | <u>\$15 629</u> | <u>\$15 629</u> |



**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**16. SUBSEQUENT EVENTS**

In the context of its overall energy efficiency plan, Hydro-Québec asked the Régie de l'énergie to adjust its programs, including those of the Agence, to which it contributes financially. These changes involve the addition of financial assistance for promoters or organizations endorsing the Novoclimat concept. The Régie's ruling, handed down in May 2005, is retroactive to October 21, 2004.

As a result, the Agence will have to invoice Hydro-Québec for more and pay a subsidy to certain organizations for which the agreement is pending signature or was signed when the financial statement were almost completed. Management deems that the amounts in question represent \$259 625.

When employees were transferred from the Ministère des Ressources naturelles to the Agence de l'efficacité énergétique, a provision for sick leave was established. The Agence had understood, following exchanges of correspondence, that this provision would be paid by the Department and not the Agence. The Agence is unable to determine the amount in question since the method of calculation has not been finalized.

**17. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE****MANAGEMENT'S REPORT**

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The financial statements of the Agence de l'efficacité énergétique were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Agence 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, examines 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 the auditing standards that are generally accepted in Canada. 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.

Réjean Carrier  
Director General

Québec, June 15, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Agence de l'efficacité énergétique as at March 31, 2005, the statement of revenue and expenditure, the statement of surplus, and the cash flow statement for the year then ended. These financial statements are the responsibility of Agence management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at March 31, 2005 and the results of its operations and its cash flows 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 basis consistent with that of the preceding year.

For the Auditor General of Québec,  
Doris Paradis, FCA  
Assistant Auditor General

Québec, June 15, 2005

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

STATEMENT OF OPERATING ACTIVITIES AND SURPLUS  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                                                                  | Budget 2004<br>(unaudited) | 2004           | 2003           |
|------------------------------------------------------------------------------------------------------------------|----------------------------|----------------|----------------|
| <b>REVENUE</b>                                                                                                   |                            |                |                |
| Government remittances:                                                                                          |                            |                |                |
| for fuel tax                                                                                                     | 50 676                     | 50 792         | 50 450         |
| for licence fees                                                                                                 | 48 822                     | 48 704         | 47 677         |
| Net revenue from TRAM sales (Note 3)                                                                             | 54 707                     | 54 427         | 51 007         |
| Revenue from commuter trains (Note 4)                                                                            | 31 258                     | 34 576         | 28 396         |
| Municipal contributions to the cost of commuter rail systems (Note 4)                                            | 29 306                     | 28 276         | 27 176         |
| Ministère des Transports du Québec contributions to the cost of commuter rail systems                            |                            |                | 267            |
| Ministère des Transports du Québec subsidies to service the public transit operating authorities debt (Note 14): |                            |                |                |
| for commuter trains                                                                                              | 7 125                      | 7 125          | 8 624          |
| for metropolitan transit facilities                                                                              | 975                        | 971            | 1 380          |
| Government assistance for adapted transportation program                                                         | 450                        | 375            | 400            |
| Revenue from metropolitan expresses                                                                              | 1 357                      | 1 308          | 1 072          |
| Municipal contributions to metropolitan expresses                                                                | 172                        | 170            | 167            |
| Contributions to metropolitan transit facilities                                                                 | 718                        | 670            | 621            |
| Other                                                                                                            | 800                        | 1 083          | 1 082          |
|                                                                                                                  | <u>226 366</u>             | <u>228 477</u> | <u>218 319</u> |
| <b>EXPENDITURE</b>                                                                                               |                            |                |                |
| Distribution of net revenue from TRAM sales (Note 3)                                                             | 54 707                     | 54 427         | 51 007         |
| Metropolitan assistance and related expenditures (Note 5)                                                        | 56 801                     | 56 375         | 60 403         |
| Commuter trains (Note 4)                                                                                         | 75 793                     | 76 688         | 69 740         |
| Metropolitan transit facilities                                                                                  | 12 358                     | 11 746         | 10 468         |
| Public transit operating authority debt servicing (Note 14):                                                     |                            |                |                |
| for commuter trains                                                                                              | 7 125                      | 7 125          | 8 627          |
| for metropolitan transit facilities                                                                              | 1 297                      | 1 350          | 1 801          |
| Operating expenses                                                                                               | 4 700                      | 4 814          | 4 747          |
| Development assistance                                                                                           | 2 600                      | 2 509          | 2 081          |
| Assistance for reduced rate TRAM tickets and related expenditures (Note 6)                                       | 5 039                      | 4 920          | 5 006          |
| Adapted transportation                                                                                           | 893                        | 700            | 533            |
| Metropolitan expresses                                                                                           | 2 523                      | 2 420          | 2 205          |
| Other                                                                                                            | 2 530                      | 2 371          | 1 395          |
|                                                                                                                  | <u>226 366</u>             | <u>225 445</u> | <u>218 013</u> |
| Net result for the fiscal year before distribution of a special remittance to transport-organizing authorities   |                            | 3 032          | 306            |
| Special remittance to transport-organizing authorities (Note 7)                                                  |                            | 2 850          |                |
| <b>NET RESULT</b>                                                                                                |                            | 182            | 306            |
| <b>SURPLUS, BEGINNING OF YEAR</b>                                                                                |                            | 318            | 12             |
| <b>SURPLUS, END OF YEAR</b>                                                                                      |                            | <u>500</u>     | <u>318</u>     |

See notes to the financial statements.

**AGENCE MÉTROPOLITAINE DE TRANSPORT**

## GENERAL FUND

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

|                                                                         | <u>2004</u>   | <u>2003</u>   |
|-------------------------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                                           |               |               |
| Cash on hand and term deposits                                          | 20 198        | 17 374        |
| Government remittances receivable                                       | 21 906        | 22 571        |
| Amount receivable from public transit operating<br>authorities (Note 8) | 5 332         | 6 504         |
| Amount receivable from the Ministère des Transports du Québec           |               | 391           |
| Spare parts for commuter trains                                         | 3 710         | 3 239         |
| Other                                                                   | <u>2 725</u>  | <u>3 377</u>  |
|                                                                         | <u>53 871</u> | <u>53 456</u> |
| <b>LIABILITIES AND FUND BALANCE</b>                                     |               |               |
| Accounts payable and accruals                                           | 12 474        | 8 970         |
| Amount payable to public transit operating<br>authorities (Note 9)      | <u>40 897</u> | <u>44 168</u> |
|                                                                         | 53 371        | 53 138        |
| <b>FUND BALANCE</b>                                                     |               |               |
| Accumulated surplus                                                     | <u>500</u>    | <u>318</u>    |
|                                                                         | <u>53 871</u> | <u>53 456</u> |

**COMMITMENTS AND CONTINGENCIES (Note 14)**

See notes to the financial statements.

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

**AGENCE MÉTROPOLITAINE DE TRANSPORT****FIXED ASSETS FUND****OPERATIONS AND PERMANENT FINANCING TO BE OBTAINED**

for the years ended December 31

(in thousands of dollars)

|                                                                           | <u>2004</u>     | <u>2003</u>     |
|---------------------------------------------------------------------------|-----------------|-----------------|
| <b>PERMANENT FINANCING</b>                                                |                 |                 |
| Ministère des Transports du Québec subsidies                              | 180 317         | 142 256         |
| Municipal contributions (Note 10)                                         | 16 751          | 15 549          |
| Other subsidies                                                           | 1 343           | 1 784           |
| Other                                                                     | <u>1 114</u>    | <u>596</u>      |
|                                                                           | <u>199 525</u>  | <u>160 185</u>  |
| <b>INVESTMENT IN FIXED ASSETS</b>                                         |                 |                 |
| Commuter trains                                                           |                 |                 |
| Deux-Montagnes                                                            | 482             | 1 483           |
| Dorion-Rigaud                                                             | 20 820          | 3 467           |
| Blainville                                                                | 335             | 9 132           |
| Mont-Saint-Hilaire                                                        | 1 640           | 5 483           |
| Delson-Candiac                                                            |                 | 3 343           |
| Metropolitan transit facilities                                           |                 |                 |
| Reserved traffic lanes                                                    | 2 382           | 3 964           |
| Incentive parking                                                         |                 | 5 171           |
| Terminus                                                                  | 5 838           | 4 005           |
| Change in construction work in progress                                   |                 |                 |
| Metro extension towards Laval                                             | 168 865         | 119 680         |
| Contribution to Réno-systèmes program                                     | (7 830)         | 7 830           |
| Feasibility and preliminary design studies – Light trains                 | (9 306)         | 3 572           |
| Other                                                                     | <u>603</u>      | <u>729</u>      |
|                                                                           | <u>183 829</u>  | <u>167 859</u>  |
| <b>Contribution for other metropolitan projects</b>                       |                 |                 |
| Contribution Réno-systèmes program                                        | 16 268          |                 |
| Feasibility and preliminary design studies – Light trains                 | 12 362          |                 |
| Feasibility studies – Miscellaneous                                       | 1 320           |                 |
| Other                                                                     | <u>966</u>      | <u>3 356</u>    |
|                                                                           | <u>214 745</u>  | <u>171 215</u>  |
| <b>DEFICIENCY OF PERMANENT FINANCING<br/>OVER INVESTMENTS OF THE YEAR</b> | <u>(15 220)</u> | <u>(11 030)</u> |
| Permanent financing to be obtained,<br>beginning of year                  | <u>(31 767)</u> | <u>(20 737)</u> |
| <b>PERMANENT FINANCING TO BE OBTAINED,<br/>END OF YEAR</b>                | <u>(46 987)</u> | <u>(31 767)</u> |

See notes to the financial statements.

**AGENCE MÉTROPOLITAINE DE TRANSPORT****FIXED ASSETS FUND****BALANCE SHEET**

as at December 31

(in thousands of dollars)

|                                                               | <u>2004</u>             | <u>2003</u>           |
|---------------------------------------------------------------|-------------------------|-----------------------|
| <b>ASSETS</b>                                                 |                         |                       |
| Cash on hand and term deposits                                | 6 088                   | 15 687                |
| Amount receivable from the Ministère des Transports du Québec | 479 642                 | 319 380               |
| Fixed assets (Note 11)                                        | 786 796                 | 624 319               |
| Other                                                         | <u>1 331</u>            | <u>198</u>            |
|                                                               | <u><u>1 273 857</u></u> | <u><u>959 584</u></u> |
| <b>LIABILITIES AND FUND BALANCE</b>                           |                         |                       |
| Accounts payable and accruals                                 | 82 824                  | 55 173                |
| Notes payable (Note 13)                                       | <u>451 224</u>          | <u>311 859</u>        |
|                                                               | 534 048                 | 367 032               |
| <b>FUND BALANCE</b>                                           |                         |                       |
| Permanent financing to be obtained                            | (46 987)                | (31 767)              |
| Net investments in fixed assets                               | <u>786 796</u>          | <u>624 319</u>        |
|                                                               | <u><u>1 273 857</u></u> | <u><u>959 584</u></u> |

**COMMITMENTS AND CONTINGENCIES (Note 14)**

See notes to the financial statements.

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

**STATEMENT OF NET INVESTMENTS IN FIXED ASSETS**

as at December 31

(in thousands of dollars)

|                              | <u>2004</u>           | <u>2003</u>           |
|------------------------------|-----------------------|-----------------------|
| <b>OPENING BALANCE</b>       | 624 319               | 477 556               |
| Acquisition of fixed assets  | 183 829               | 167 859               |
| Depreciation of fixed assets | <u>(21 352)</u>       | <u>(21 096)</u>       |
| <b>CLOSING BALANCE</b>       | <u><u>786 796</u></u> | <u><u>624 319</u></u> |

See notes to the financial statements.

## AGENCE MÉTROPOLITAINE DE TRANSPORT

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(in thousands of dollars)

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#### 1. STATUS AND NATURE OF ACTIVITIES

The Agence métropolitaine de transport (AMT) is a legal person established in the public interest, a Québec government agent, 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. It plans and carries out all metro network extensions. Financially speaking, the AMT supports the transit agencies in the Montréal region 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 within its territory, which represents the combined territories of the Communauté urbaine de Montréal, the city of Saint-Jérôme and the Kahnawake Indian reserve.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Accounting policies

The financial statements were prepared in accordance with generally accepted accounting principles based on the Act governing the AMT which, among other things, requires the use of two separate funds to record its operations, namely:

##### i) General Fund

In accordance with the provisions of the Act and the practices of fund accounting, the AMT uses a general fund to account for its current operations related to service delivery and operations, as well as the related assets and liabilities.

##### ii) Fixed Assets Fund

In accordance with the provisions of the Act and the practices of fund accounting, the AMT uses a fixed assets fund to record and control permanent financing, real estates investments and contributions for other metropolitan projects. The non-refundable amounts granted the AMT for investments on fixed assets are posted to permanent financing in the statement of operations and to permanent financing to be obtained for the Fixed Assets Fund. The permanent financing to be covered presented to the Fixed Assets Fund represents a cumulative, unsubsidized balance of investments in fixed assets and contributions for other metropolitan projects that must be paid for from the sources of permanent financing for future fiscal years.

##### Accounting estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts presented in the financial statements. The actual results could differ from these estimates.

##### Accounting method

The AMT's operations are recorded on an accrual basis.

##### Government subsidies

Government subsidies are recorded as revenue or as permanent financing in the appropriate fund and in the fiscal year for which they were granted.

##### Spare parts

Spare parts for commuter trains are valued at the lower of cost, less an allowance for obsolescence, or replacement cost.

**AGENCE MÉTROPOLITAINE DE TRANSPORT**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Fixed assets**

Fixed assets are recorded at cost in the statement of fixed assets. This cost includes materials, labour, other fees directly related to construction activities and financial expenses capitalized during the time the work was being carried out. Fixed assets are amortized over their service life using the straight-line method over the following periods:

|                                                          |          |
|----------------------------------------------------------|----------|
| Commuter trains – infrastructures                        | 20 years |
| Commuter trains – worn rolling stock                     | 10 years |
| Commuter trains – new rolling stock                      | 40 years |
| Metropolitan transit facilities – reserved traffic lanes | 20 years |
| Metropolitan transit facilities – incentive parking      | 20 years |
| Metropolitan transit facilities – terminus               | 20 years |

The amortization is recorded in the statement of net investments of fixed assets.

**3. NET REVENUE FROM TRAM SALES**

Net revenue from TRAM 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 sales, net of the allocation of a portion of the revenues to commuter trains and metropolitan expresses, is as follows:

|                                             | Budget 2004 -<br>unaudited | 2004          | 2003          |
|---------------------------------------------|----------------------------|---------------|---------------|
| Société de transport de Montréal            | 24 781                     | 24 497        | 23 069        |
| Réseau de transport de Longueuil            | 14 137                     | 13 961        | 13 218        |
| Société de transport de Laval               | 7 794                      | 7 423         | 7 130         |
| Intermunicipal transportation councils      | 5 966                      | 6 025         | 5 418         |
| Conseil régional de transport de Lanaudière | 1 411                      | 1 916         | 1 586         |
| Municipalities                              | 618                        | 605           | 586           |
|                                             | <u>54 707</u>              | <u>54 427</u> | <u>51 007</u> |

**4. COMMUTER TRAINS****Commuter train receipts**

Commuter train receipts come from the sale of train tickets and a \$23 762 allocation for TRAM sales in 2004 (\$19 329 in 2003).



# AGENCE MÉTROPOLITAINE DE TRANSPORT

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

### 4. COMMUTER TRAINS (cont'd)

#### Commuter train receipts (cont'd)

Receipt breakdown by commuter train line is as follows:

|                    | Budget 2004 -<br>unaudited | 2004          | 2003          |
|--------------------|----------------------------|---------------|---------------|
| Deux-Montagnes     | 14 549                     | 15 799        | 13 281        |
| Dorion-Rigaud      | 5 325                      | 5 411         | 4 805         |
| Blainville         | 6 388                      | 7 064         | 5 716         |
| Mont-Saint-Hilaire | 3 778                      | 4 661         | 3 435         |
| Delson-Candiac     | 1 218                      | 1 641         | 1 159         |
|                    | <u>31 258</u>              | <u>34 576</u> | <u>28 396</u> |

#### 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 lines between the municipalities served by a commuter train line according to the train-kilometres serving each section.

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

The municipalities whose territory is served by the same section share the amount established for that section 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.

The breakdown of municipal contributions by commuter train line is as follows:

|                    | Budget 2004 -<br>unaudited | 2004          | 2003          |
|--------------------|----------------------------|---------------|---------------|
| Deux-Montagnes     | 11 452                     | 11 899        | 10 862        |
| Dorion-Rigaud      | 9 064                      | 9 014         | 8 426         |
| Blainville         | 3 988                      | 3 456         | 3 494         |
| Mont-Saint-Hilaire | 3 396                      | 2 970         | 3 695         |
| Delson-Candiac     | 1 406                      | 937           | 699           |
|                    | <u>29 306</u>              | <u>28 276</u> | <u>27 176</u> |

#### Operating costs

The breakdown of management and operating costs by commuter train line is as follows:

|                    | Budget 2004 -<br>unaudited | 2004          | 2003          |
|--------------------|----------------------------|---------------|---------------|
| Deux-Montagnes     | 28 630                     | 29 749        | 27 154        |
| Dorion-Rigaud      | 22 187                     | 22 365        | 20 557        |
| Blainville         | 10 376                     | 10 520        | 8 735         |
| Mont-Saint-Hilaire | 10 570                     | 10 599        | 9 839         |
| Delson-Candiac     | 4 030                      | 3 455         | 3 455         |
|                    | <u>75 793</u>              | <u>76 688</u> | <u>69 740</u> |

**AGENCE MÉTROPOLITAINE DE TRANSPORT**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**5. 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 metro transit system or the metropolitan transit bus system.

The amount of metropolitan transit assistance is calculated as follows:

- \$0.20 per passenger assessed using metro system turnstile readings totalling \$43 495 in 2004 (\$46 391 in 2003). This amount includes additional assistance of \$2 632;
- \$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 \$12 684 in 2004 (\$13 850 in 2003). This amount includes additional assistance of \$942.

Metropolitan transit assistance breaks down as follows:

|                                             | Budget 2004 -<br>unaudited | 2004   | 2003   |
|---------------------------------------------|----------------------------|--------|--------|
| Metro:                                      |                            |        |        |
| Société de transport de Montréal            | 43 880                     | 43 495 | 46 391 |
| Bus:                                        |                            |        |        |
| Société de transport de Montréal            | 6 307                      | 5 999  | 6 752  |
| Réseau de transport de Longueuil            | 3 003                      | 3 153  | 3 324  |
| Société de transport de Laval               | 1 734                      | 1 797  | 1 967  |
| Intermunicipal transportation councils      | 1 240                      | 1 261  | 1 296  |
| Conseil régional de transport de Lanaudière | 333                        | 373    | 407    |
| Municipalities                              | 104                        | 101    | 104    |
|                                             | 12 721                     | 12 684 | 13 850 |
| Related expenditures                        | 200                        | 196    | 162    |
|                                             | 56 801                     | 56 375 | 60 403 |

**6. ASSISTANCE FOR REDUCED AND INTERMEDIATE RATE TRAM TICKETS AND RELATED EXPENDITURES**

Under subparagraph 9, paragraph 1, section 35 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 the year 2004, the AMT set the ceiling for assistance for reduced and intermediate rate TRAM tickets at \$4 920 for TRAM zone 1-8 (\$5 006 in 2003 for TRAM 1-8). This amount includes additional assistance of \$160.

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

December 31, 2004

(in thousands of dollars)

**6. ASSISTANCE FOR REDUCED AND INTERMEDIATE RATE**
**TRAM TICKETS AND RELATED EXPENDITURES (cont'd)**

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

|                                             | Budget 2004 -<br>unaudited | 2004         | 2003         |
|---------------------------------------------|----------------------------|--------------|--------------|
| Société de transport de Montréal            | 2 161                      | 2 176        | 2 162        |
| Réseau de transport de Longueuil            | 1 291                      | 1 274        | 1 334        |
| Société de transport de Laval               | 688                        | 665          | 668          |
| Intermunicipal transportation councils      | 652                        | 543          | 592          |
| Conseil régional de transport de Lanaudière | 179                        | 199          | 183          |
| Municipalities                              | 68                         | 63           | 67           |
|                                             | <u>5 039</u>               | <u>4 920</u> | <u>5 006</u> |

**7. SPECIAL REMITTANCE TO TRANSPORT-ORGANIZING AUTHORITIES**

Under sections 45 and 49 of the Act, the AMT can allocate assistance to a PTOA to cover all or part of the costs of its contribution to the metropolitan transport system per bus and metro operating costs.

Given the budgetary difficulties facing transport organizations, especially transportation societies, the members of the board of directors decided, at their February 25, 2005 meeting, to use the \$3 032 M surplus of revenues over expenditures to pay a special remittance of \$2 850 in 2004 to the PTOAs. This remittance is broken down on a prorated basis according to the total metropolitan assistance and assistance for reduced and intermediate rates attributed to each PTOA in 2004.

|                                             | Budget 2004 -<br>(unaudited) | 2004         | 2003 |
|---------------------------------------------|------------------------------|--------------|------|
| Société de transport de Montréal            |                              | 2 404        |      |
| Réseau de transport de Longueuil            |                              | 208          |      |
| Société de transport de Laval               |                              | 116          |      |
| Intermunicipal transportation councils      |                              | 87           |      |
| Conseil régional de transport de Lanaudière |                              | 27           |      |
| Municipalities                              |                              | 8            |      |
|                                             |                              | <u>2 850</u> |      |

**8. AMOUNT RECEIVABLE FROM PUBLIC TRANSIT OPERATING AUTHORITIES**

|                                             | 2004         | 2003         |
|---------------------------------------------|--------------|--------------|
| Société de transport de Montréal            | 1 069        | 1 509        |
| Réseau de transport de Longueuil            | 1 875        | 2 432        |
| Société de transport de Laval               | 674          | 527          |
| Intermunicipal transportation councils      | 1 596        | 1 737        |
| Conseil régional de transport de Lanaudière | 89           | 244          |
| Municipalities                              | 29           | 55           |
|                                             | <u>5 332</u> | <u>6 504</u> |

**AGENCE MÉTROPOLITAINE DE TRANSPORT**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**9. AMOUNT PAYABLE TO PUBLIC TRANSIT OPERATING AUTHORITIES**

|                                             | 2004          | 2003          |
|---------------------------------------------|---------------|---------------|
| Société de transport de Montréal            | 32 005        | 34 394        |
| Réseau de transport de Longueuil            | 3 799         | 4 651         |
| Société de transport de Laval               | 1 915         | 2 656         |
| Intermunicipal transportation councils      | 2 639         | 1 955         |
| Conseil régional de transport de Lanaudière | 421           | 418           |
| Municipalities                              | 118           | 94            |
|                                             | <u>40 897</u> | <u>44 168</u> |

**10. MUNICIPAL CONTRIBUTIONS TO THE COST OF COMMUTER RAIL SYSTEMS**

To fund a portion of the unsubsidized Fixed Assets Fund expenditures, those municipalities whose territory falls within that of the AMT have to 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.

**11. FIXED ASSETS**

|                                      | 2004           |                          | 2003           |
|--------------------------------------|----------------|--------------------------|----------------|
|                                      | Cost           | Accumulated depreciation | Net value      |
| Commuter trains - Deux-Montagnes     |                |                          |                |
| Land                                 | 15 035         |                          | 15 035         |
| Infrastructures                      | 80 383         | 36 045                   | 44 338         |
| Rolling stock                        | 129 659        | 30 694                   | 98 965         |
|                                      |                |                          | 101 738        |
| Commuter trains - Dorion-Rigaud      |                |                          |                |
| Land                                 | 519            |                          | 519            |
| Infrastructures                      | 40 048         | 23 235                   | 16 813         |
| Rolling stock                        | 90 830         | 32 050                   | 58 780         |
|                                      |                |                          | 43 228         |
| Commuter trains - Blainville         |                |                          |                |
| Land                                 | 1 986          |                          | 1 986          |
| Infrastructures                      | 17 746         | 2 928                    | 14 818         |
| Rolling stock                        | 30 306         | 10 389                   | 19 917         |
|                                      |                |                          | 21 419         |
| Commuter trains - Mont-Saint-Hilaire |                |                          |                |
| Land                                 | 2 403          |                          | 2 403          |
| Infrastructures                      | 29 556         | 3 502                    | 26 054         |
| Rolling stock                        | 13 064         | 3 630                    | 9 434          |
|                                      |                |                          | 10 717         |
| Commuter trains - Delson-Candiac     |                |                          |                |
| Infrastructures                      | 3 800          | 455                      | 3 345          |
| Rolling stock                        | 6 182          | 1 272                    | 4 910          |
|                                      |                |                          | 5 799          |
| Amounts carried forward              | <u>461 517</u> | <u>144 200</u>           | <u>317 317</u> |
|                                      |                |                          | <u>312 432</u> |

# AGENCE MÉTROPOLITAINE DE TRANSPORT

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

### 11. FIXED ASSETS (cont'd)

|                                 | 2004           |                          | 2003           |
|---------------------------------|----------------|--------------------------|----------------|
|                                 | Cost           | Accumulated depreciation | Net value      |
| Amounts brought forward         | 461 517        | 144 200                  | 317 317        |
| Metropolitan transit facilities |                |                          |                |
| Land                            | 17 534         |                          | 17 534         |
| Reserved traffic lanes          | 45 434         | 6 460                    | 38 974         |
| Incentive parking               | 14 850         | 2 851                    | 11 999         |
| Terminus                        | 34 180         | 6 081                    | 28 099         |
| Spare parts for commuter trains | 1 944          |                          | 1 944          |
| Construction work in progress   |                |                          |                |
| Metro extension towards Laval   | 336 298        |                          | 336 298        |
| Other projects                  | 34 631         |                          | 34 631         |
|                                 | <u>946 388</u> | <u>159 592</u>           | <u>786 796</u> |
|                                 |                |                          | <u>624 319</u> |

For the metro extension project towards Laval, it is planned that the AMT will transfer a significant portion of the related fixed assets to the Société de transport de Montréal one year after becoming operational, thereby reducing the fixed assets and net investment in the fixed assets for a sum equivalent to the cost of the fixed assets transferred.

### 12. SHORT-TERM LOAN

In keeping with Order-in-Council 1033-2003 of September 24, 2003, the Gouvernement du Québec gave the AMT authorization until September 30, 2005 to contract fluctuating or fixed rate loans from Canadian financial institutions or the Ministère des Finances, to a maximum, including financing charges, of \$100 000 in legal Canadian tender. The term of these loans shall, under no circumstances, exceed one year.

### 13. NOTES PAYABLE

The AMT contracted loans with the Ministère des Finances as manager of the Financing Fund. Under the Gouvernement du Québec's mass transit assistance program, the Ministère des Transports (MTQ) committed to paying the AMT an annual subsidy of an amount corresponding to the reimbursement of these notes, capital and interest. During the fiscal year, the total amount of the MTQ subsidy for the reimbursement of these notes was \$40 133, including \$17 982 in interest.

Notes payable are detailed in the table below:

| Issue date              | Amount authorized | Interest rate % | Maturity date | Balance at beginning of fiscal year | Issued during fiscal year | Repayment during fiscal year | Balance at end of fiscal year |
|-------------------------|-------------------|-----------------|---------------|-------------------------------------|---------------------------|------------------------------|-------------------------------|
| 03-12-1999              | 13 939            | 6.320           | 01-06-2009    | 9 050                               |                           | 1 424                        | 7 626                         |
| 07-07-2000              | 4 674             | 6.340           | 01-10-2007    | 3 386                               |                           | 398                          | 2 988                         |
| 07-07-2000              | 7 218             | 6.340           | 01-10-2007    | 6 433                               |                           | 219                          | 6 214                         |
| 07-07-2000              | 8 531             | 6.340           | 01-10-2007    | 7 604                               |                           | 259                          | 7 345                         |
| 25-08-2000              | 9 542             | 6.270           | 01-10-2007    | 7 313                               |                           | 861                          | 6 452                         |
| 25-08-2000              | 2 685             | 6.270           | 01-10-2007    | 2 475                               |                           | 85                           | 2 390                         |
| 25-08-2000              | 520               | 6.270           | 01-10-2007    | 399                                 |                           | 47                           | 352                           |
| Amounts carried forward |                   |                 |               | <u>36 660</u>                       |                           | <u>3 293</u>                 | <u>33 367</u>                 |

## AGENCE MÉTROPOLITAINE DE TRANSPORT

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

## 13. NOTES PAYABLE (cont'd)

| Issue date              | Amount authorized | Interest rate % | Maturity date | Balance at beginning of fiscal year | Issued during fiscal year | Repayment during fiscal year | Balance at end of fiscal year |
|-------------------------|-------------------|-----------------|---------------|-------------------------------------|---------------------------|------------------------------|-------------------------------|
| Amounts brought forward |                   |                 |               | 36 660                              |                           | 3 293                        | 33 367                        |
| 21-12-2000              | 9 128             | 5.948           | 01-12-2010    | 6 903                               |                           | 822                          | 6 081                         |
| 26-09-2001              | 2 515             | 5.958           | 01-12-2010    | 1 946                               |                           | 231                          | 1 715                         |
| 26-09-2001              | 2 517             | 5.958           | 01-12-2010    | 1 948                               |                           | 232                          | 1 716                         |
| 26-09-2001              | 1 365             | 5.958           | 01-12-2010    | 1 242                               |                           | 44                           | 1 198                         |
| 26-09-2001              | 10 300            | 5.958           | 01-12-2010    | 9 363                               |                           | 331                          | 9 032                         |
| 26-09-2001              | 203               | 5.958           | 01-12-2010    | 156                                 |                           | 19                           | 137                           |
| 26-09-2001              | 3 500             | 5.958           | 01-12-2010    | 2 708                               |                           | 322                          | 2 386                         |
| 22-11-2001              | 635               | 5.866           | 01-12-2010    | 536                                 |                           | 54                           | 482                           |
| 22-11-2001              | 633               | 5.866           | 01-12-2010    | 535                                 |                           | 54                           | 481                           |
| 22-11-2001              | 5 000             | 5.866           | 01-12-2010    | 4 725                               |                           | 154                          | 4 571                         |
| 22-11-2001              | 17 160            | 5.866           | 01-12-2010    | 14 492                              |                           | 1 467                        | 13 025                        |
| 22-11-2001              | 3 123             | 5.866           | 01-12-2010    | 2 639                               |                           | 267                          | 2 372                         |
| 12-06-2002              | 3 150             | 5.945           | 01-10-2012    | 3 041                               |                           | 90                           | 2 951                         |
| 12-06-2002              | 3 150             | 5.945           | 01-10-2012    | 3 041                               |                           | 90                           | 2 951                         |
| 12-06-2002              | 5 275             | 5.945           | 01-10-2012    | 5 093                               |                           | 150                          | 4 943                         |
| 12-06-2002              | 8 467             | 5.945           | 01-10-2012    | 7 660                               |                           | 666                          | 6 994                         |
| 12-06-2002              | 1 434             | 5.945           | 01-10-2012    | 1 297                               |                           | 113                          | 1 184                         |
| 17-07-2002              | 4 028             | 5.864           | 01-10-2012    | 3 766                               |                           | 328                          | 3 438                         |
| 06-09-2002              | 15 062            | 5.385           | 01-10-2012    | 13 939                              |                           | 1 240                        | 12 699                        |
| 06-09-2002              | 17 164            | 5.385           | 01-10-2012    | 16 728                              |                           | 523                          | 16 205                        |
| 28-11-2002              | 10 070            | 5.439           | 28-11-2012    | 9 288                               |                           | 825                          | 8 463                         |
| 05-12-2002              | 8 308             | 5.524           | 05-12-2012    | 7 666                               |                           | 678                          | 6 988                         |
| 05-12-2002              | 7 560             | 6.039           | 05-12-2022    | 7 357                               |                           | 215                          | 7 142                         |
| 05-12-2002              | 2 520             | 5.524           | 05-12-2022    | 2 453                               |                           | 72                           | 2 381                         |
| 09-07-2003              | 60 332            | 4.283           | 09-07-2010    | 60 332                              |                           | 1 958                        | 58 374                        |
| 09-07-2003              | 10 055            | 4.283           | 09-07-2010    | 10 055                              |                           | 825                          | 9 230                         |
| 15-09-2003              | 20 000            | 5.149           | 01-10-2013    | 20 000                              |                           | 616                          | 19 384                        |
| 20-11-2003              | 15 000            | 5.159           | 01-10-2013    | 15 000                              |                           | 542                          | 14 458                        |
| 20-11-2003              | 896               | 5.159           | 01-10-2013    | 896                                 |                           | 32                           | 864                           |
| 20-11-2003              | 7 504             | 5.159           | 01-10-2013    | 7 504                               |                           | 638                          | 6 866                         |
| 01-12-2003              | 9 390             | 4.513           | 01-12-2008    | 9 390                               |                           | 1 714                        | 7 676                         |
| 10-12-2003              | 21 500            | 5.167           | 01-10-2013    | 21 500                              |                           | 834                          | 20 666                        |
| 10-12-2003              | 2 000             | 5.167           | 01-10-2013    | 2 000                               |                           | 175                          | 1 825                         |
| 20-01-2004              | 9 260             | 5.000           | 01-10-2013    |                                     | 9 260                     | 411                          | 8 849                         |
| 18-03-2004              | 20 510            | 5.379           | 16-07-2024    |                                     | 20 510                    | 462                          | 20 048                        |
| 05-05-2004              | 30 000            | 5.267           | 05-05-2014    |                                     | 30 000                    | 432                          | 29 568                        |
| 26-07-2004              | 60 000            | 5.256           | 03-06-2014    |                                     | 60 000                    | 1 301                        | 58 699                        |
| 26-07-2004              | 10 600            | 5.256           | 03-06-2014    |                                     | 10 600                    | 485                          | 10 115                        |
| 26-07-2004              | 4 400             | 5.256           | 03-06-2014    |                                     | 4 400                     | 200                          | 4 200                         |
| 08-11-2004              | 3 200             | 5.453           | 02-12-2024    |                                     | 3 200                     |                              | 3 200                         |
| 08-11-2004              | 7 800             | 4.968           | 02-12-2014    |                                     | 7 800                     |                              | 7 800                         |
| 06-12-2004              | 16 500            | 4.888           | 30-06-2014    |                                     | 16 500                    |                              | 16 500                        |
|                         |                   |                 |               | <u>311 859</u>                      | <u>162 270</u>            | <u>22 905</u>                | <u>451 224</u>                |

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

December 31, 2004

(in thousands of dollars)

**13. NOTES PAYABLE (cont'd)**

The breakdown of the annual reimbursement of capital and interest for these notes over the next fiscal years is as follows:

|                                                         |                  |
|---------------------------------------------------------|------------------|
| 2005                                                    | 49 685           |
| 2006                                                    | 49 685           |
| 2007                                                    | 69 065           |
| 2008                                                    | 46 101           |
| 2009                                                    | 42 995           |
| 2010 and thereafter                                     | 345 266          |
|                                                         | <u>602 797</u>   |
| Interest included in the amount of reimbursements above | <u>(151 573)</u> |
|                                                         | <u>451 224</u>   |

**14. COMMITMENTS AND CONTINGENCIES****General 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 as follows:

|                     |                |
|---------------------|----------------|
| 2005                | 63 704         |
| 2006                | 47 090         |
| 2007                | 30 040         |
| 2008                | 13 585         |
| 2009                | 4 349          |
| 2010 and thereafter | 5 248          |
|                     | <u>164 016</u> |

**Fixed Assets Fund commitments**

The AMT has contractual agreements with certain suppliers for the various fixed assets projects in progress. The MTQ has made the commitment vis-à-vis the AMT to subsidize a portion of these fixed assets investments. Commitments under the contracts awarded for these projects are as follows:

|      |                |
|------|----------------|
| 2005 | 159 628        |
| 2006 | 26 407         |
| 2007 | 280            |
|      | <u>186 315</u> |

The fixed assets projects under way include the metro extension to Laval. At December 31, 2004, the project's estimated final cost was estimated at \$803 600, \$336 298 had been realized and \$112 400 was included in the above-mentioned commitments. This project is fully subsidized by the MTQ.

**AGENCE MÉTROPOLITAINE DE TRANSPORT**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**14. COMMITMENTS AND CONTINGENCIES (cont'd)****Debt service for public transit operating authorities for commuter trains and metropolitan transit facilities**

Under sections 37 and 152 of the Act, the Société de transport de Montréal (STM), the Réseau de transport de Montréal (RTL) and the Société de transport de Laval (STL) maintain the debt service for financing the goods whose ownership was or will be transferred to the AMT. The three transit corporations remain responsible for the commitments represented by the securities they issued, which continue to constitute direct, general obligations for them. The AMT reimburses the STM, the RTL and the STL, in capital and interest, based on the maturity dates of their debt service payments. Future payment under these obligations, for which the AMT receives annual subsidies covering a portion of these payments, break down as follows for the coming fiscal years:

|      |        |
|------|--------|
| 2005 | 7 954  |
| 2006 | 6 262  |
| 2007 | 2 331  |
|      | <hr/>  |
|      | 16 547 |

**Claims**

In its normal course of business, the AMT is involved in various claims and lawsuits. Although the outcomes of the different files active on December 31, 2004 cannot be foreseen with any certainty, the AMT estimates that they should not have significant negative their repercussions on its financial position and net results, given the provisions or insurance coverage related to these elements.

**Insurance**

The AMT has set aside \$2 188 M (\$1 878 M in 2003) for compensation of any kind or damages occurring during the operation of commuter train lines.

**15. COMPARATIVE FIGURES**

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.



**AGENCE MÉTROPOLITAINE DE TRANSPORT****AUDITORS' REPORT**

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To the Board of Directors of the  
Agence métropolitaine de transport

We have audited the balance sheets of the General Fund and the Fixed Assets Fund of the Agence métropolitaine de transport (AMT) as at December 31, 2004, the statement of operating activities and surplus of the Operating Fund, the statement of operations and permanent financing of the Fixed Assets Fund and the statement of net investments in fixed assets for the year then ended. These financial statements are the responsibility of the Agence's management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Agence's financial position as at December 31, 2004 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles disclosed in Note 2.

The budget figures are shown for comparison purposes only and were not audited. Consequently, we have not expressed an opinion on them.

Ernst & Young, s.r.l./S.E.N.C.R.L.  
Chartered Accountants

Montréal, Québec  
March 18, 2005

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**  
(R.S.Q., c. A-33.2)

REVENUE AND EXPENDITURE  
for the fourteen-month period ended March 31, 2005

|                                                                                | Current<br>operations | Deposit<br>Insurance<br>Fund | Total               |
|--------------------------------------------------------------------------------|-----------------------|------------------------------|---------------------|
| <b>REVENUE</b>                                                                 |                       |                              |                     |
| Fees, contributions and premiums (Note 4)                                      | \$57 040 955          | \$19 422 162                 | \$76 463 117        |
| Interest                                                                       | 1 626 007             | 14 606 000                   | 16 232 007          |
| Other                                                                          | 1 583 093             |                              | 1 583 093           |
| Settlements and fines                                                          | 390 299               |                              | 390 299             |
|                                                                                | <u>60 640 354</u>     | <u>34 028 162</u>            | <u>94 668 516</u>   |
| <b>EXPENDITURE</b>                                                             |                       |                              |                     |
| Salaries and fringe benefits                                                   | 41 251 069            | 480 382                      | 41 731 451          |
| Occupancy expenses                                                             | 4 779 456             |                              | 4 779 456           |
| Professional services                                                          | 4 172 311             |                              | 4 172 311           |
| Supplies, documentation and maintenance                                        | 2 017 312             |                              | 2 017 312           |
| Travel, promotion and reception                                                | 1 471 158             | 18 191                       | 1 489 349           |
| Communications, information                                                    | 844 894               | 240 414                      | 1 085 308           |
| Telecommunications                                                             | 496 362               |                              | 496 362             |
| Contribution to the Bureau de décision et de révision<br>en valeurs mobilières | 3 496 676             |                              | 3 496 676           |
| Fees related to legislation                                                    | 250 000               |                              | 250 000             |
| Other                                                                          | 2 188 870             | 26 860                       | 2 215 730           |
| Amortization of fixed assets                                                   | 1 983 257             |                              | 1 983 257           |
| Amortization of intangible assets                                              | 599 703               |                              | 599 703             |
| Amortization of initial expenses                                               | 1 353 273             |                              | 1 353 273           |
| Administrative costs attributed to the Fonds (Note 5)                          | (767 165)             | 610 858                      | (156 307)           |
|                                                                                | <u>64 137 176</u>     | <u>1 376 705</u>             | <u>65 513 881</u>   |
| <b>SURPLUS (DEFICIT) FOR THE YEAR<br/>BEFORE SUBSEQUENT ELEMENT</b>            | (3 496 822)           | 32 651 457                   | 29 154 635          |
| Expenditures related to the Reserved Fund (Note 6)                             | (414 762)             |                              | (414 762)           |
| <b>SURPLUS (DEFICIT) FOR THE YEAR</b>                                          | <u>\$(3 911 584)</u>  | <u>\$32 651 457</u>          | <u>\$28 739 873</u> |

The notes are an integral part of these financial statements.

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**
**SURPLUS**

for the fourteen-month period ended March 31, 2005

|                                    | Current operations             |                        |                     | Deposit<br>Insurance<br>Fund   |                      |
|------------------------------------|--------------------------------|------------------------|---------------------|--------------------------------|----------------------|
|                                    | Unappro-<br>priated<br>surplus | Contingency<br>reserve | Reserved<br>Fund    | Unappro-<br>priated<br>surplus | Total                |
| <b>OPENING BALANCE</b><br>(Note 3) | \$17 341 956                   | \$33 529 869           | \$14 622 000        | \$280 051 075                  | \$345 544 900        |
| Surplus (deficit)<br>for the year  | (3 911 584)                    |                        |                     | 32 651 457                     | 28 739 873           |
| Use of Reserved Fund<br>(Note 6)   | 414 762                        |                        | (414 762)           |                                |                      |
| <b>CLOSING BALANCE</b>             | <u>\$13 845 134</u>            | <u>\$33 529 869</u>    | <u>\$14 207 238</u> | <u>\$312 702 532</u>           | <u>\$374 284 773</u> |

The notes are an integral part of these financial statements.

## AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS

## BALANCE SHEET

|                                     | As at March 31, 2005  |                              |                      | As at<br>February 1,<br>2004 |
|-------------------------------------|-----------------------|------------------------------|----------------------|------------------------------|
|                                     | Current<br>operations | Deposit<br>Insurance<br>Fund | Total                | Total                        |
| <b>ASSETS</b>                       |                       |                              |                      |                              |
| <b>Current assets</b>               |                       |                              |                      |                              |
| Cash on hand                        | \$2 318 962           | \$1 034                      | \$2 319 996          | \$3 032 765                  |
| Short-term investments (Note 8)     | 54 973 201            | 314 128 149                  | 369 101 350          | 351 178 957                  |
| Accounts receivable (Note 9)        | 5 083 572             | 2 663                        | 5 086 235            | 4 482 001                    |
| Receivable – Deposit Insurance Fund | 251 977               |                              |                      |                              |
| Interest receivable                 | 538 067               | 1 254 080                    | 1 792 147            | 1 939 234                    |
| Prepaid expenses                    | 625 021               | 1 547                        | 626 568              | 444 645                      |
|                                     | <u>63 790 800</u>     | <u>315 387 473</u>           | <u>378 926 296</u>   | <u>361 077 602</u>           |
| <b>Accounts receivable</b> (Note 9) | 1 105 866             |                              | 1 105 866            | 1 333 474                    |
| <b>Fixed assets</b> (Note 10)       | 9 246 512             |                              | 9 246 512            | 5 252 419                    |
| <b>Intangible assets</b> (Note 11)  | 2 289 838             |                              | 2 289 838            | 691 429                      |
| <b>Start-up costs</b> (Note 12)     | <u>4 446 469</u>      |                              | <u>4 446 469</u>     | <u>5 038 148</u>             |
|                                     | <u>\$80 879 485</u>   | <u>\$315 387 473</u>         | <u>\$396 014 981</u> | <u>\$373 393 072</u>         |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**
**BALANCE SHEET (cont'd)**

|                                                                                  | As at March 31, 2005  |                              |                      | As at<br>February 1,<br>2004 |
|----------------------------------------------------------------------------------|-----------------------|------------------------------|----------------------|------------------------------|
|                                                                                  | Current<br>operations | Deposit<br>Insurance<br>Fund | Total                | Total                        |
| <b>LIABILITIES</b>                                                               |                       |                              |                      |                              |
| <b>Current liabilities</b>                                                       |                       |                              |                      |                              |
| Accounts payable and accrued expenses<br>(Note 13)                               | \$5 497 140           | \$35 159                     | \$5 532 299          | \$9 888 605                  |
| Payable – Current operations                                                     |                       | 251 977                      |                      |                              |
| Refundable fees and contributions                                                | 475 601               |                              | 475 601              | 837 630                      |
| Provision for sick leave and vacation time<br>(Note 14)                          | 2 689 998             |                              | 2 689 998            | 2 804 633                    |
| Deferred revenue                                                                 | 4 742 133             | 1 397 805                    | 6 139 938            | 9 109 264                    |
|                                                                                  | <u>13 404 872</u>     | <u>1 684 941</u>             | <u>14 837 836</u>    | <u>22 640 132</u>            |
| Long-term portion of the provision for<br>sick leave and vacation time (Note 14) | 5 892 372             |                              | 5 892 372            | 4 208 040                    |
|                                                                                  | <u>19 297 244</u>     | <u>1 684 941</u>             | <u>20 730 208</u>    | <u>26 848 172</u>            |
| <b>NET EQUITY</b>                                                                |                       |                              |                      |                              |
| Gouvernement du Québec contribution                                              | -----                 | 1 000 000                    | 1 000 000            | 1 000 000                    |
| Surplus                                                                          |                       |                              |                      |                              |
| Unappropriated surplus                                                           | 13 845 134            | 312 702 532                  | 326 547 666          | 297 393 031                  |
| Contingency reserve (Note 15)                                                    | 33 529 869            |                              | 33 529 869           | 33 529 869                   |
| Reserved Fund (Note 6)                                                           | 14 207 238            |                              | 14 207 238           | 14 622 000                   |
|                                                                                  | <u>61 582 241</u>     | <u>312 702 532</u>           | <u>374 284 773</u>   | <u>345 544 900</u>           |
|                                                                                  | <u>61 582 241</u>     | <u>313 702 532</u>           | <u>375 284 773</u>   | <u>346 544 900</u>           |
|                                                                                  | <u>\$80 879 485</u>   | <u>\$315 387 473</u>         | <u>\$396 014 981</u> | <u>\$373 393 072</u>         |

**COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)**

The notes are an integral part of these financial statements.

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

Linda Levasseur  
Director General of Administration  
and Corporate Services  
Autorité des marchés financiers

## AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS

## CASH FLOWS

for the fourteen-month period ended March 31, 2005

|                                                      | Current<br>operations | Deposit<br>Insurance<br>Fund | Total         |
|------------------------------------------------------|-----------------------|------------------------------|---------------|
| <b>OPERATING ACTIVITIES</b>                          |                       |                              |               |
| Surplus (deficit) for fiscal year                    | \$(3 911 584)         | \$32 651 457                 | \$28 739 873  |
| Elements without impact on cash flows                |                       |                              |               |
| Amortization of fixed assets                         | 1 983 257             |                              | 1 983 257     |
| Amortization of intangible assets                    | 599 703               |                              | 599 703       |
| Amortization of initial expenses                     | 1 353 273             |                              | 1 353 273     |
| Loss on disposal of fixed assets                     | 50 576                |                              | 50 576        |
|                                                      | 75 225                | 32 651 457                   | 32 726 682    |
| Variation in non-cash elements related to operations |                       |                              |               |
| Accounts receivable                                  | (376 626)             |                              | (376 626)     |
| Receivable – Deposit Insurance Fund                  | (251 977)             |                              |               |
| Interest receivable                                  | 544 983               | (397 896)                    | 147 087       |
| Prepaid expenses                                     | (180 376)             | (1 547)                      | (181 923)     |
| Accounts payable and accrued expenses                | (4 850 086)           | (38 844)                     | (4 888 930)   |
| Payable – Current operations                         |                       | 251 977                      |               |
| Refundable fees and contributions                    | (362 029)             |                              | (362 029)     |
| Provision for sick leave an vacation time            | 1 569 697             |                              | 1 569 697     |
| Deferred revenue                                     | (321 170)             | (2 648 156)                  | (2 969 326)   |
|                                                      | (4 227 584)           | (2 834 466)                  | (7 062 050)   |
| Cash flows related to operating activities           | (4 152 359)           | 29 816 991                   | 25 664 632    |
| <b>INVESTMENT ACTIVITIES</b>                         |                       |                              |               |
| Acquisition of investments                           | (96 448 079)          | (30 910 078)                 | (127 358 157) |
| Proceeds from the disposal of investments            | 109 369 581           |                              | 109 369 581   |
| Acquisition of fixed assets                          | (5 715 406)           |                              | (5 715 406)   |
| Proceeds from the disposal of fixed                  | 73 503                |                              | 73 503        |
| Acquisition of intangible assets                     | (2 051 511)           |                              | (2 051 511)   |
| Start-up costs                                       | (761 594)             |                              | (761 594)     |
| Cash flows related to investment activities          | 4 466 494             | (30 910 078)                 | (26 443 584)  |
| <b>NET VARIATION IN CASH AND CASH EQUIVALENTS</b>    | 314 135               | (1 093 087)                  | (778 952)     |
| <b>OPENING CASH AND CASH EQUIVALENTS</b>             | 3 034 430             | 1 129 931                    | 4 164 361     |
| <b>CLOSING CASH AND CASH EQUIVALENTS</b>             | \$3 348 565           | \$36 844                     | \$3 385 409   |
| Closing cash and cash equivalents include:           |                       |                              |               |
| Cash                                                 | \$2 318 962           | \$1 034                      | \$2 319 996   |
| Short-term investments                               | 1 029 603             | 35 810                       | 1 065 413     |
|                                                      | \$3 348 565           | \$36 844                     | \$3 385 409   |

The notes are an integral part of these financial statements.

## AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

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### 1. CONSTITUTION AND MISSION

The Autorité des marchés financiers (hereinafter called the 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 the Régie de l'assurance-dépôts du Québec. At this time, it acquired the rights and obligations of these entities.

The mission of the Authority is to:

- provide assistance to consumers of financial products and services, in particular by setting up consumer-oriented educational programs on financial products and services, processing complaints filed by consumers and giving consumers access to dispute-resolution services;
- ensure that the financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law with a view to protecting the interests of consumers of financial products and services, and take any measure provided by law for those purposes;
- supervise the activities connected with the distribution of financial products and services, administer the rules governing eligibility for and the carrying on of those activities, and take any measure provided by law for those purposes;
- supervise stock market and clearing house activities and monitor the securities market, in particular, by administering the controls provided by law as regards access to the public capital market, ensuring that the issuers and other practitioners involved in the financial sector comply with the obligations imposed on them by law and taking any measure provided by law for those purposes;
- 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 any of the Authority's statements of assets and liabilities and must be listed as being added to or subtracted from the Deposit Insurance Fund. In order to supply complete financial information, the Authority also 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 the soliciting and receiving of deposits of money from the public;
- guarantee to every person who makes a deposit of money with a registered institution or a bank the payment, on their respective maturity dates, of the principal and interest of the deposit, up to \$60 000;
- guarantee payment of deposits of money to the extent and in the manner prescribed in this Act and the regulations;
- 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 to exercise certain powers. The premiums collected by the Fund are paid into it together 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 AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 1. CONSTITUTION AND MISSION (cont'd)

- when the resources of the Deposit Insurance Fund are insufficient for the payment of its obligations or the exercise of its powers, the Minister of Finance, with the authorization of the Government and on such conditions as it determines, may make to the Deposit Insurance Fund advances or guarantee the payment of any of the Fund's commitments. The total unpaid balance of these advances and guaranteed commitments may not exceed \$700 000 000.

The Authority also administers a financial services compensation fund called the Fonds d'indemnisation des services financiers, 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 shall be assigned to the payment of indemnities payable 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 assets of the fund are not part of the assets of the Authority. The financial statements of the Fonds d'indemnisation des services financiers are presented in Note 20.

#### 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, taken charge of collecting membership dues for these entities. In fiscal 2004, the Authority collected contributions of \$6 563 446 and remitted \$6 454 614 to the Chambre de la sécurité financier and collected contributions of \$4 213 573 and remitted \$4 159 146 to the Chambre de l'assurance de dommages.

### 2. ACCOUNTING POLICIES

The Authority's financial statements were prepared by management in accordance with the accounting principles generally recognized in Canada. The statements contain amount based on best judgments and estimates.

#### Short-term investments

Investments are recorded at cost or market value, whichever is less.

#### Fixed assets

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

|                                                                          |                                                                                        |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Computer hardware                                                        | 3 years                                                                                |
| Office furniture and equipment and<br>Leasehold improvements – equipment | 5 years                                                                                |
| Leasehold improvements– layout                                           | Remainder of lease plus a renewal-option period<br>or period ending September 30, 2013 |

#### Intangible assets

Intangible assets are recorded at cost and amortized using the straight-line method over a 3-year service life.

#### Initial expenses

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



# AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 2. ACCOUNTING POLICIES (cont'd)

### Income reporting

#### *Income from dues and premiums*

Income from dues and premiums is recorded in keeping with the period covered by this income. Amounts invoiced for a period exceeding fiscal year-end are posted as deferred income.

#### *Income other than dues and premiums*

Income other than dues and premiums is recorded when the supply 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 a case-by-case analysis and posted as soon as the losses can reasonably be evaluated. The annual variation in this provision is reported in the statement of revenue and expenditure.

### Pension plans

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

### Cash and cash equivalents

The Authority's policy consists in presenting, under cash and cash equivalents, bank balances, unappropriated demand deposits and other short-term investments maturing within three months' of their acquisition date.

## 3. CHANGES IN ACCOUNTING POLICIES

The balance sheet at February 1, 2004 was adjusted to reflect the accounting policies adopted by the Authority for recording premium income for the Deposit Insurance Fund. This income will henceforth be recorded in keeping with the period covered by these premiums. This adjustment increased the deferred income balance and decreased the balance of the \$4 045 961 surplus in the February 1, 2004 balance sheet.

## 4. FEES, CONTRIBUTIONS AND PREMIUMS

|                                                                    | Current<br>operations | Deposit<br>Insurance<br>Fund | 2005<br>(14 months)<br>Total |
|--------------------------------------------------------------------|-----------------------|------------------------------|------------------------------|
| Securities Act <sup>1</sup>                                        | \$34 547 013          |                              | \$34 547 013                 |
| Act respecting the distribution of financial products and services | 11 845 092            |                              | 11 845 092                   |
| Act respecting insurance                                           | 6 971 900             |                              | 6 971 900                    |
| Act respecting trust companies and savings companies               | 1 029 317             |                              | 1 029 317                    |
| Act respecting financial services cooperatives                     | 2 616 790             |                              | 2 616 790                    |
| Act respecting the Mouvement Desjardins                            | 30 843                |                              | 30 843                       |
| Deposit Insurance Act                                              |                       | \$19 422 162                 | 19 422 162                   |
|                                                                    | <u>\$57 040 955</u>   | <u>\$19 422 162</u>          | <u>\$76 463 117</u>          |

<sup>1</sup> Section 271.12 of the Regulation respecting securities provides for a 15% reduction in fees payable. The reduction granted over the fourteen-month period ended March 31, 2005 totalled \$6 165 040.

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**5. ADMINISTRATIVE EXPENSES ATTRIBUTED TO THE FUNDS**

The Autorité des marchés financiers made human resources, fixed assets and office space available to the Deposit Insurance Fund and the Fonds d'indemnisation des services financiers. During the fiscal year, the Autorité des marchés financiers charged them \$610 858 and \$156 307 respectively for the use of these resources. These operations were concluded in the normal course of activities and measured at exchange value, which corresponds to the best estimate of costs. At March 31, 2005, the Deposit Insurance Fund and the Fonds d'indemnisation des services financiers owed \$43 633 and \$11 165 respectively for these services.

**6. RESERVED FUND**

As stipulated in section 276.4 of the Securities Act (R.S.Q., c. V-1.1), the Authority may, with the Government's authorization, create a fund for a specific purpose. The Government authorized the creation of a separate fund for investor education and governance promotion used as follows during the fiscal year:

|                              | 2005<br>(14 months)       |
|------------------------------|---------------------------|
| Interest                     | <u>\$217 027</u>          |
| Payment of contributions     | 542 355                   |
| Salaries and fringe benefits | 75 344                    |
| Other                        | <u>14 090</u>             |
|                              | <u>631 789</u>            |
|                              | <u><u>\$(414 762)</u></u> |

**7. FINANCIAL INSTRUMENTS**

The market value of participation deposit units in funds entrusted to the Caisse de dépôt et placement du Québec was \$342 259 713 at March 31, 2005. The market value of bankers' acceptances and commercial papers was \$10 716 658 and \$24 530 128 respectively at March 31, 2005.

The fair value of the other financial instruments is equivalent to their book value, given that they mature in the near future.

**8. SHORT-TERM INVESTMENTS**

|                                                                      | Current<br>operations | Deposit<br>Insurance<br>Fund | March 31,<br>2005<br>Total | February 1,<br>2004  |
|----------------------------------------------------------------------|-----------------------|------------------------------|----------------------------|----------------------|
| <b>Funds entrusted to the Caisse de dépôt et placement du Québec</b> |                       |                              |                            |                      |
| Demand deposits                                                      | \$535 947             | \$35 810                     | \$571 757                  | \$1 131 596          |
| Term deposits                                                        | 4 900 000             |                              | 4 900 000                  | 12 450 000           |
| Participation deposits                                               | <u>14 714 904</u>     | <u>314 092 339</u>           | <u>328 807 243</u>         | <u>283 182 261</u>   |
| Amounts carried forward                                              | <u>\$20 150 851</u>   | <u>\$314 128 149</u>         | <u>\$334 279 000</u>       | <u>\$296 763 857</u> |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**8. SHORT-TERM INVESTMENTS (cont'd)**

|                                              | Current<br>operations | Deposit<br>Insurance<br>Fund | March 31,<br>2005<br>Total | February 1,<br>2004<br>Total |
|----------------------------------------------|-----------------------|------------------------------|----------------------------|------------------------------|
| Amounts brought forward                      | \$20 150 851          | \$314 128 149                | \$334 279 000              | \$296 763 857                |
| <b>Fonds entrusted to other institutions</b> |                       |                              |                            |                              |
| Bankers' acceptances                         | 10 700 000            |                              | 10 700 000                 |                              |
| Commercial papers                            | 24 113 550            |                              | 24 113 550                 | 3 200 000                    |
| Guaranteed bills                             |                       |                              |                            | 45 365 300                   |
| Term deposits                                |                       |                              |                            | 5 841 000                    |
| Other                                        | 8 800                 |                              | 8 800                      | 8 800                        |
|                                              | <u>\$54 973 201</u>   | <u>\$314 128 149</u>         | <u>\$369 101 350</u>       | <u>\$351 178 957</u>         |

Demand deposits, term deposits, bankers' acceptances and commercial papers bear interest at rates varying between 2.50% and 3.16%, maturing on different dates until March 2006.

**9. ACCOUNTS RECEIVABLE**

|                                               | Current<br>operations | Deposit<br>Insurance<br>Fund | March 31,<br>2005<br>Total | February 1,<br>2004<br>Total |
|-----------------------------------------------|-----------------------|------------------------------|----------------------------|------------------------------|
| <b>Short-term portion</b>                     |                       |                              |                            |                              |
| Fees, contributions and premiums              | \$4 307 119           |                              | \$4 307 119                | \$3 253 252                  |
| Fonds d'indemnisation des services financiers | 254 348               |                              | 254 348                    | 19 363                       |
| Other                                         | 265 528               | \$2 663 <sup>1</sup>         | 268 191                    | 185 656                      |
| Gouvernement du Québec receivable             |                       |                              |                            |                              |
| Conseil du trésor                             | 227 608               |                              | 227 608                    | 1 023 730                    |
| Registraire des entreprises                   | 28 969                |                              | 28 969                     |                              |
|                                               | <u>5 083 572</u>      | <u>2 663</u>                 | <u>5 086 235</u>           | <u>4 482 001</u>             |
| <b>Long-term portion</b>                      |                       |                              |                            |                              |
| Gouvernement du Québec receivable             |                       |                              |                            |                              |
| Conseil du trésor                             | 1 105 866             |                              | 1 105 866                  | 1 333 474                    |
|                                               | <u>\$6 189 438</u>    | <u>\$2 663</u>               | <u>\$6 192 101</u>         | <u>\$5 815 475</u>           |

<sup>1</sup> This amount represents claims related to repayment of guaranteed deposits. When the Authority, through the Deposit Insurance Fund, pays a cash deposit in place of an institution, the depositor's rights against the institution are subrogated and the Authority claims the amount paid and related interest from the latter. At March 31, 2005, and February 1, 2004, claims receivable totalled \$4 342 663 and a provision for losses of \$4 340 000 was posted.

## AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. FIXED ASSETS**

|                                     | March 31, 2005      |                             | February 1,<br>2004 |
|-------------------------------------|---------------------|-----------------------------|---------------------|
|                                     | Cost                | Accumulated<br>depreciation | Net<br>value        |
| Leasehold improvements – equipments | \$286 007           | \$174 818                   | \$111 189           |
| Leasehold improvements – layout     | 6 775 886           | 1 168 649                   | 5 607 237           |
| Office furniture and equipment      | 5 810 417           | 3 147 108                   | 2 663 309           |
| Computer hardware                   | 3 436 082           | 2 571 305                   | 864 777             |
|                                     | <u>\$16 308 392</u> | <u>\$7 061 880</u>          | <u>\$9 246 512</u>  |
|                                     |                     |                             | <u>\$5 252 419</u>  |

**11. INTANGIBLE ASSETS**

|                              | March 31, 2005     |                             | February 1,<br>2004 |
|------------------------------|--------------------|-----------------------------|---------------------|
|                              | Cost               | Accumulated<br>depreciation | Net<br>value        |
| Software                     | \$1 908 608        | \$1 552 127                 | \$356 481           |
| Computer systems development | 3 392 244          | 1 458 887                   | 1 933 357           |
|                              | <u>\$5 300 852</u> | <u>\$3 011 014</u>          | <u>\$2 289 838</u>  |
|                              |                    |                             | <u>\$691 429</u>    |

**12. START-UP COSTS**

|                | March 31, 2005     |                             | February 1,<br>2004 |
|----------------|--------------------|-----------------------------|---------------------|
|                | Cost               | Accumulated<br>depreciation | Net<br>value        |
| Start-up costs | <u>\$5 799 742</u> | <u>\$1 353 273</u>          | <u>\$4 446 469</u>  |
|                |                    |                             | <u>\$5 038 148</u>  |

**13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

|                                                            | Current<br>operations | Deposit<br>Insurance<br>Fund | March 31,<br>2005  | February 1,<br>2004 |
|------------------------------------------------------------|-----------------------|------------------------------|--------------------|---------------------|
| Accounts payable and accrued expenses                      | \$4 948 685           | \$35 159                     | \$4 983 844        | \$4 313 642         |
| Bureau de décision et de révision en valeurs mobilières    |                       |                              |                    | 149 908             |
| Owing to the Gouvernement du Québec                        |                       |                              |                    |                     |
| Ministère des Finances                                     | 548 455               |                              | 548 455            | 312 904             |
| Bureau de transition de l'encadrement du secteur financier |                       |                              |                    | 5 038 148           |
| Registraire des entreprises                                |                       |                              |                    | 74 003              |
|                                                            | <u>\$5 497 140</u>    | <u>\$35 159</u>              | <u>\$5 532 299</u> | <u>\$9 888 605</u>  |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**14. FUTURE FRINGE BENEFITS**
**Pension plans**

Authority employees participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Pension Plan for Management Personnel (PPMP) or the Upper Management Pension Plan. These defined-benefit interenterprise plans include guarantees on retirement and death.

The Authority's contributions posted to the results of the fourteen-month period totalled \$1 169 548. Its obligations towards these government plans are restricted to its employer contributions.

**Provision for sick leave and vacation time**

|                                            | March 31,<br>2005  | February 1,<br>2004 |
|--------------------------------------------|--------------------|---------------------|
| Provision for vacation time                |                    |                     |
| Opening balance                            | \$2 804 633        |                     |
| Expenditure for the year                   | 3 004 072          |                     |
| Benefits paid during the year              | (2 331 729)        |                     |
|                                            | <u>3 476 976</u>   | <u>\$2 804 633</u>  |
| Closing balance                            |                    |                     |
| Provision for sick leave                   |                    |                     |
| Opening balance                            | 4 208 040          |                     |
| Expenditure for the year                   | 1 677 562          |                     |
| Benefits paid during the year              | (780 208)          |                     |
|                                            | <u>5 105 394</u>   | <u>4 208 040</u>    |
| Closing balance                            |                    |                     |
| Provision for vacation time and sick leave | 8 582 370          | 7 012 673           |
| Long-term portion                          | <u>(5 892 372)</u> | <u>(4 208 040)</u>  |
|                                            | <u>\$2 689 998</u> | <u>\$2 804 633</u>  |

**15. CONTINGENCY RESERVE**

As stipulated in section 276.4 of the Securities Act (R.S.Q., c. V-1.1), the Authority may, to fulfil its mission under this legislation, set up a contingency reserve to cover unforeseen variations in the Authority's expenditures or revenues.

**16. 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, 2004 by the Deposit Insurance Fund totalled \$57.4 billion (\$56.2 billion in 2003), \$10.2 billion (\$10.5 billion in 2003) 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 to any responsibility resulting from any guarantee whatsoever for deposits guaranteed by the latter received from a trust company or holding company incorporated under federal legislation.

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**17. COMMITMENTS**

The Authority committed, under rental contracts ending on different dates until 2019, to paying office rental expenses of \$48 970 053. The minimum payments required for the next five years totalled \$3 764 230 in 2005-2006, \$3 770 473 in 2006-2007, \$3 776 716 in 2007-2008, \$3 869 294 in 2008-2009, \$3 961 873 in 2009-2010 and \$29 827 467 for fiscal 2010-2011 and thereafter.

Commitments related to contributions to the Investor education and governance promotion fund are \$258 490 for fiscal 2005-2006 and \$100 000 for fiscal 2006-2007.

**18. CONTINGENCIES**

The Authority is currently faced with two lawsuits for damages. Since it is not possible to evaluate the amount the Authority might need to pay, no provision was posted in the financial statements. However, the Authority believes that the outcomes of these claims will not have a significant negative impact on its financial position.

**19. RELATED PARTY TRANSACTIONS**

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 either joint control or significant influence by it. The Authority 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.

**20. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS**
**Revenue and expenditure**

for the fourteen-month period ended March 31, 2005

|                                                   | Fonds<br>d'indemni-<br>sation des<br>services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de personnes | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>dommages | Fonds<br>d'indemni-<br>sation des<br>planifi-<br>cateurs<br>financiers | Total            |
|---------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------|------------------|
| Revenue                                           |                                                             |                                                                 |                                                                   |                                                                        |                  |
| Contributions                                     | \$2 409 785                                                 | \$503                                                           |                                                                   |                                                                        | \$2 410 288      |
| Interest                                          | 184 787                                                     | 4 807                                                           | \$41 376                                                          | \$822                                                                  | 231 792          |
| Subrogation revenue                               |                                                             | 42 283                                                          |                                                                   |                                                                        | 42 283           |
|                                                   | <u>2 594 572</u>                                            | <u>47 593</u>                                                   | <u>41 376</u>                                                     | <u>822</u>                                                             | <u>2 684 363</u> |
| Expenditure                                       |                                                             |                                                                 |                                                                   |                                                                        |                  |
| Compensation (Note J)                             | 1 309 708                                                   | 29 767                                                          |                                                                   |                                                                        | 1 339 475        |
| Salaries and fringe benefits                      | 610 238                                                     |                                                                 |                                                                   |                                                                        | 610 238          |
| Travel expenses                                   | 3 616                                                       | 22                                                              |                                                                   |                                                                        | 3 638            |
| Communications, information                       | (3 720)                                                     |                                                                 |                                                                   |                                                                        | (3 720)          |
| Professional services                             | 205 199                                                     | 8 168                                                           |                                                                   |                                                                        | 213 367          |
| Administrative expenses<br>(Note D)               | 156 307                                                     |                                                                 |                                                                   |                                                                        | 156 307          |
| Other                                             | 10 461                                                      | 19 912                                                          |                                                                   |                                                                        | 30 373           |
|                                                   | <u>2 291 809</u>                                            | <u>57 869</u>                                                   |                                                                   |                                                                        | <u>2 349 678</u> |
| Excess (shortfall) of revenue<br>over expenditure | <u>\$302 763</u>                                            | <u>\$(10 276)</u>                                               | <u>\$41 376</u>                                                   | <u>\$822</u>                                                           | <u>\$334 685</u> |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**20. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)**
**Changes in fund balances**

for the fourteen-month period ended March 31, 2005

|                                                   | Fonds<br>d'indemni-<br>sation des<br>services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de personnes | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>dommages | Fonds<br>d'indemni-<br>sation des<br>planifi-<br>cateurs<br>financiers | Total                |
|---------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------|----------------------|
| Opening balance (Note C)                          | \$(5 495 627)                                               | \$181 901                                                       | \$1 127 458                                                       | \$34 146                                                               | \$(4 152 122)        |
| Excess (shortfall) of revenue<br>over expenditure | 302 763                                                     | (10 276)                                                        | 41 376                                                            | 822                                                                    | 334 685              |
| Closing balance (Note E)                          | <u>\$(5 192 864)</u>                                        | <u>\$171 625</u>                                                | <u>\$1 168 834</u>                                                | <u>\$34 968</u>                                                        | <u>\$(3 817 437)</u> |

**Balance sheet**

March 31, 2005

|                                                                              | Fonds<br>d'indemni-<br>sation des<br>services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>personnes | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>dommages | Fonds<br>d'indemni-<br>sation des<br>planifi-<br>cateurs<br>financiers | March 31,<br>2005<br>Total | February<br>1,<br>2004<br>Total |
|------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------|---------------------------------|
| <b>Assets</b>                                                                |                                                             |                                                                    |                                                                   |                                                                        |                            |                                 |
| Current assets                                                               |                                                             |                                                                    |                                                                   |                                                                        |                            |                                 |
| Cash on hands                                                                | \$41 818                                                    | \$546                                                              | \$2 115                                                           | \$49                                                                   | \$44 528                   | \$570                           |
| Investments (Note G)                                                         | 5 534 619                                                   | 153 094                                                            | 1 156 165                                                         | 34 915                                                                 | 6 878 793                  | 6 603 750                       |
| Accounts receivable<br>(Note H)                                              | 191 038                                                     | 38 896                                                             | 10 554                                                            | 4                                                                      | 240 492                    | 270 250                         |
| Prepaid expenses                                                             | 7 671                                                       |                                                                    |                                                                   |                                                                        | 7 671                      | 2 425                           |
|                                                                              | <u>5 775 146</u>                                            | <u>192 536</u>                                                     | <u>1 168 834</u>                                                  | <u>34 968</u>                                                          | <u>7 171 484</u>           | <u>6 876 995</u>                |
| Investments (Note G)                                                         |                                                             |                                                                    |                                                                   |                                                                        |                            | 519 649                         |
| Notes receivable in<br>subrogation, without<br>interest, maturing<br>in 2013 |                                                             | 29 300                                                             |                                                                   |                                                                        | 29 300                     | 46 949                          |
| Fixed assets                                                                 |                                                             |                                                                    |                                                                   |                                                                        |                            | 3 313                           |
|                                                                              | <u>\$5 775 146</u>                                          | <u>\$221 836</u>                                                   | <u>\$1 168 834</u>                                                | <u>\$34 968</u>                                                        | <u>\$7 200 784</u>         | <u>\$7 446 906</u>              |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**20. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)**

**Balance sheet** (cont'd)  
March 31, 2005

|                                  | Fonds<br>d'indemni-<br>sation des<br>services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>personnes | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>dommages | Fonds<br>d'indemni-<br>sation des<br>planifi-<br>cateurs<br>financiers | March 31,<br>2005<br>Total | February<br>1,<br>2004<br>Total |
|----------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------|---------------------------------|
| <b>Liabilities</b>               |                                                             |                                                                    |                                                                   |                                                                        |                            |                                 |
| Current liabilities              |                                                             |                                                                    |                                                                   |                                                                        |                            |                                 |
| Bank overdraft                   |                                                             |                                                                    |                                                                   |                                                                        |                            | \$45 143                        |
| Accounts payable (Note I)        | \$483 101                                                   |                                                                    |                                                                   |                                                                        | \$483 101                  | 71 876                          |
| Compensation payable<br>(Note J) | 9 459 000                                                   | \$50 211                                                           |                                                                   |                                                                        | 9 509 211                  | 10 314 944                      |
| Deferred revenue                 | 1 025 909                                                   |                                                                    |                                                                   |                                                                        | 1 025 909                  | 1 167 065                       |
|                                  | <u>10 968 010</u>                                           | <u>50 211</u>                                                      |                                                                   |                                                                        | <u>11 018 221</u>          | <u>11 599 028</u>               |
| Fund balances (Note E)           | <u>(5 192 864)</u>                                          | <u>171 625</u>                                                     | <u>\$1 168 834</u>                                                | <u>\$34 968</u>                                                        | <u>(3 817 437)</u>         | <u>(4 152 122)</u>              |
|                                  | <u>\$5 775 146</u>                                          | <u>\$221 836</u>                                                   | <u>\$1 168 834</u>                                                | <u>\$34 968</u>                                                        | <u>\$7 200 784</u>         | <u>\$7 446 906</u>              |

**CONTINGENCIES (Note K)**

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

Linda Levasseur  
Director General of Administration  
and Corporate Services  
Autorité des marchés financiers

**A - GOVERNING STATUTES AND NATURE OF OPERATIONS**

The Fonds d'indemnisation des services financiers is a fund incorporated under the Act respecting the distribution of financial products and services, assented to on June 20, 1998 by the Québec government. This fund took over corresponding funds created under the Act respecting market intermediaries as at October 1, 1999.

On February 1, 2004, the Fonds d'indemnisation des services financiers was replaced by the Autorité des marchés financiers (hereinafter referred to as the Authority) under the Act respecting the Autorité des marchés financiers. At this time, the Authority acquired its rights and obligations. The Fonds d'indemnisation des services financiers is now an appropriated heritage managed by the Authority separately from its other assets.



**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**20. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)**
**A - GOVERNING STATUTES AND NATURE OF OPERATIONS (cont'd)**

The Fonds d'indemnisation des services financiers has three distinct funds comprised of amounts in the Fonds d'indemnisation des assurances de dommages, Fonds d'indemnisation des assurances de personnes and Fonds d'indemnisation des planificateurs financiers.

The Authority, via the Fonds d'indemnisation des services financiers, administers amounts deposited with the Fund. Its mission is also to compensate individuals who have been the 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.

**B - ACCOUNTINGS POLICIES**

The financial statements of the Fonds d'indemnisation des services financiers were prepared by management in accordance with the accounting principles generally recognized in Canada. The statements contain amount based on best judgments and estimates.

No cash flow statement has been presented since the main operating, investment and financing activities are obvious from reading the other financial statements and it would have provided no additional information.

**Investments**

Investments are recorded at cost or market value, whichever is less.

**Income reporting**
*Income from dues*

Income from dues is recorded in keeping with the period covered by this income. Amounts invoiced for a period exceeding fiscal year-end are posted as deferred income.

*Subrogation income*

Subrogation income is reported when it is reasonably certain that these amounts will be recovered.

**C - CHANGES IN ACCOUNTING POLICIES**

The figures at February 1, 2004 were adjusted to reflect the accounting policies adopted by the Authority for recording income from dues. This income will henceforth be recorded in keeping with the period covered by these dues. This adjustment increased (decreased) the following items in the February 1, 2004 balance sheet.

|                                       | Fonds<br>d'indemni-<br>sation<br>des services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de personnes | Total       |
|---------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------|-------------|
| Accounts receivable – dues receivable | \$146 845                                                   | \$138                                                           | \$146 983   |
| Deferred income                       | 1 166 562                                                   | 503                                                             | 1 167 065   |
| Fund balance                          | (1 019 717)                                                 | (365)                                                           | (1 020 082) |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**20. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)**
**D - ADMINISTRATIVE EXPENSES**

The Autorité des marchés financiers made human resources, fixed assets and office space available to the Fonds d'indemnisation des services financiers. During the fiscal year, the Autorité des marchés financiers charged \$156 307 for the use of these resources. These operations were concluded in the normal course of activities and measured at exchange value, which corresponds to the best estimate of costs. At March 31, 2005, the Fonds d'indemnisation des services financiers owed \$11 165 for these services.

**E - FUND BALANCE**

By virtue of an amendment in December 2004 to section 278 of the Act respecting the distribution of financial products and services, it was established that should assets be insufficient, the contribution would have to be determined to offset this shortfall over a maximum 5-year period.

**F - FINANCIAL INSTRUMENTS**

Cash, term deposits, accounts payable and accounts receivable are financial instruments whose fair value is close to their book value, given that they mature in the near future and given 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.

**G - INVESTMENTS**

|                   | Fonds<br>d'indemni-<br>sation des<br>services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>personnes | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>dommages | Fonds<br>d'indemni-<br>sation des<br>planifi-<br>cateurs<br>financiers | March 31,<br>2005<br>Total | February<br>1,<br>2004<br>Total |
|-------------------|-------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------|---------------------------------|
| Term deposits     | \$5 534 619                                                 | \$153 094                                                          | \$1 156 165                                                       | \$34 915                                                               | \$6 878 793                | \$7 123 399                     |
| Long-term portion |                                                             |                                                                    |                                                                   |                                                                        |                            | 519 649                         |
|                   | <u>\$5 534 619</u>                                          | <u>\$153 094</u>                                                   | <u>\$1 156 165</u>                                                | <u>\$34 915</u>                                                        | <u>\$6 878 793</u>         | <u>\$6 603 750</u>              |

Term deposits bear interest at rates varying between 1.40% and 3.9% and maturing by March 2006.

**H - ACCOUNTS RECEIVABLE**

|                          | Fonds<br>d'indemni-<br>sation des<br>services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>personnes | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de<br>dommages | Fonds<br>d'indemni-<br>sation des<br>planifi-<br>cateurs<br>financiers | March 31,<br>2005<br>Total | February<br>1,<br>2004<br>Total |
|--------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------|---------------------------------|
| Accrued interest         | \$49 698                                                    | \$1 147                                                            | \$10 554                                                          | \$4                                                                    | \$61 403                   | \$110 162                       |
| Contributions receivable | 141 340                                                     |                                                                    |                                                                   |                                                                        | 141 340                    | 146 983                         |
| Other                    |                                                             | 37 749                                                             |                                                                   |                                                                        | 37 749                     | 13 105                          |
|                          | <u>\$191 038</u>                                            | <u>\$38 896</u>                                                    | <u>\$10 554</u>                                                   | <u>\$4</u>                                                             | <u>\$240 492</u>           | <u>\$270 250</u>                |

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**20. FONDS D'INDEMNISATION DES SERVICES FINANCIERS – FINANCIAL STATEMENTS (cont'd)**
**I - ACCOUNTS PAYABLE**

|                                                      | March 31,<br>2005 | February 1,<br>2004 |
|------------------------------------------------------|-------------------|---------------------|
| Supplier accounts and accrued expenses               | \$228 753         | \$52 513            |
| Autorité des marchés financiers (current operations) | 254 348           | 19 363              |
|                                                      | <u>\$483 101</u>  | <u>\$71 876</u>     |

**J - COMPENSATION AND COMPENSATION PAYABLE**

Establishing the amount of compensation payable under claims for situations that have been reported and those that have not, determined by the Bureau's actuaries mandated by the Authority, is based on known facts and an interpretation of the circumstances based on experience with similar situations, historical claim settlement trends, settled claims, the number of unsettled claims and event frequency. The amounts in question are discounted at the rate of 2.5% to reflect the value of money over time.

The following table summarized changes in compensation payable:

|                                | Fonds<br>d'indemni-<br>sation<br>des services<br>financiers | Fonds<br>d'indemni-<br>sation des<br>assurances<br>de personnes | March 31,<br>2005<br>Total |
|--------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------|----------------------------|
| Opening balance                | \$10 262 000                                                | \$52 944                                                        | \$10 314 944               |
| Allowance for the year         | 1 309 708                                                   | 29 767                                                          | 1 339 475                  |
| Claims settled during the year | <u>(2 112 708)</u>                                          | <u>(32 500)</u>                                                 | <u>(2 145 208)</u>         |
| Closing balance                | <u>\$9 459 000</u>                                          | <u>\$50 211</u>                                                 | <u>\$9 509 211</u>         |

**K - CONTINGENCIES**

The Fonds d'indemnisation des services financiers which has been replaced by the Authority, is involved in five lawsuits concerning decisions to refuse compensation within the context of its activities. Since it is not possible to evaluate the amount the Authority might have to pay, no provision has been made in the financial statements. However, the Authority feels that these lawsuits are unfounded and that the outcomes of these claims will not have a significant negative impact on its financial position.

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS****MANAGEMENT'S REPORT**

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The financial statements of the Autorité des marchés financiers and the Fonds d'indemnisation des services financiers were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. 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 and Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. 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

Linda Levasseur  
Director General of Administration  
and Corporate Services

Québec, June 7, 2005

**AUTORITÉ DES MARCHÉS FINANCIERS AND FONDS D'INDEMNISATION DES SERVICES FINANCIERS****AUDITOR'S REPORT**

---

To the National Assembly

I have audited the balance sheet of Autorité des marchés financiers and Fonds d'indemnisation des services financiers as at February 1, 2005 and March 31, 2005 and the statements of revenue and expenditure and cash flows of Autorité des marchés and the statements of revenue and expenditure and changes in fund balances for the fourteen-month period ended March 31, 2005. These financial statements are the responsibility of Authority management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Autorité des marchés financiers and the Fonds d'indemnisation des services financiers as at February 1, 2004 and March 31, 2005 and the results of their operations and cash flows for the fourteen-month period ended March 31, 2005, in accordance with the accounting principles that are generally accepted in Canada.

Renaud Lachance, CA  
Auditor General of Québec

Québec, June 7, 2005

**BIBLIOTHÈQUE NATIONALE DU QUÉBEC**  
(R.S.Q., c. B-2.2)

INCOME  
for the year ended March 31, 2005

|                                                                                                   | 2005               |                    |                  |                    | 2004               |
|---------------------------------------------------------------------------------------------------|--------------------|--------------------|------------------|--------------------|--------------------|
|                                                                                                   | General Fund       | Fixed Assets Fund  | Start-up Fund    | Total              | Total              |
| <b>REVENUE</b>                                                                                    |                    |                    |                  |                    |                    |
| Gouvernement du Québec subsidies                                                                  |                    |                    |                  |                    |                    |
| Operations                                                                                        | \$28 308 115       |                    |                  | \$28 308 115       | \$19 708 100       |
| Other subsidies                                                                                   | 21 177             |                    | \$24 345         | 45 522             | 32 453             |
| Interest on long-term debt                                                                        |                    | \$2 504 666        |                  | 2 504 666          | 1 179 269          |
| Amortization of deferred subsidies (Note 15)                                                      | 4 587 766          | 637 423            | 6 896 123        | 12 121 312         | 4 012 855          |
| Ville de Montréal financial contribution (Note 8)                                                 | 1 706 612          |                    |                  | 1 706 612          |                    |
| Ministère de l'Emploi, de la Solidarité sociale et de la Famille financial contribution (Note 21) | 50 494             |                    |                  | 50 494             |                    |
| Sponsorship income                                                                                | 212 000            |                    |                  | 212 000            |                    |
| Donations to the heritage collection                                                              | 415 555            |                    |                  | 415 555            | 797 059            |
| Sale of goods and services                                                                        | 338 547            |                    |                  | 338 547            | 318 137            |
| Interest on bank deposits                                                                         | 295 176            |                    | 2 800            | 297 976            | 182 621            |
|                                                                                                   | <u>35 935 442</u>  | <u>3 142 089</u>   | <u>6 923 268</u> | <u>46 000 799</u>  | <u>26 230 494</u>  |
| <b>EXPENDITURE</b>                                                                                |                    |                    |                  |                    |                    |
| Salaries and fringe benefits                                                                      | 15 915 664         |                    | 1 508 600        | 17 424 264         | 14 129 408         |
| Professional, administrative and other services                                                   | 5 484 971          |                    | 2 898 425        | 8 383 396          | 3 600 443          |
| Rent                                                                                              | 1 239 810          |                    | 7 285            | 1 247 095          | 1 298 158          |
| Transportation and communications                                                                 | 949 008            |                    | 15 797           | 964 805            | 968 533            |
| Supplies                                                                                          | 1 166 855          |                    | 966 171          | 2 133 026          | 762 938            |
| Loss on sale of assets                                                                            |                    | 229 043            |                  | 229 043            | 37 309             |
| Financial expenses (Note 16)                                                                      | 11 282             | 2 569 434          | 494 237          | 3 074 953          | 1 416 307          |
| Depreciation of fixed assets                                                                      |                    | 1 118 672          | 753 503          | 1 872 175          | 1 422 315          |
| Amortization of the participation in a television production                                      |                    | 25 000             |                  | 25 000             |                    |
|                                                                                                   | <u>24 767 590</u>  | <u>3 942 149</u>   | <u>6 644 018</u> | <u>35 353 757</u>  | <u>23 635 411</u>  |
| Heritage collection (Note 4)                                                                      |                    |                    |                  |                    |                    |
| Donations                                                                                         | 415 555            |                    |                  | 415 555            | 797 059            |
| Purchases                                                                                         | 5 011 818          |                    |                  | 5 011 818          | 448 076            |
|                                                                                                   | <u>30 194 963</u>  | <u>3 942 149</u>   | <u>6 644 018</u> | <u>40 781 130</u>  | <u>24 880 546</u>  |
| <b>EXCESS REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE)</b>                                 | <u>\$5 740 479</u> | <u>\$(800 060)</u> | <u>\$279 250</u> | <u>\$5 219 669</u> | <u>\$1 349 948</u> |

The notes are an integral part of these financial statements.

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

CHANGES IN NET ASSETS  
for the year ended March 31, 2005

|                                                                             | 2005               |                    |                    |                     | 2004                |
|-----------------------------------------------------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
|                                                                             | General Fund       | Fixed Assets Fund  | Start-up Fund      | Total               | Total               |
| <b>OPENING BALANCE OF NET ASSETS</b>                                        | \$4 212 715        | \$2 467 710        | \$9 598 863        | \$16 279 288        | \$14 929 340        |
| Excess revenue over expenditure (expenditure over revenue)                  | 5 740 479          | (800 060)          | 279 250            | 5 219 669           | 1 349 948           |
| Interfund contributions (Note 9)                                            | (780 407)          | 780 407            |                    |                     |                     |
| <b>CLOSING BALANCE OF NET ASSETS</b>                                        | <u>\$9 172 787</u> | <u>\$2 448 057</u> | <u>\$9 878 113</u> | <u>\$21 498 957</u> | <u>\$16 279 288</u> |
| Net assets invested in fixed assets                                         |                    | \$2 323 057        | \$9 878 113        | \$12 201 170        | \$11 916 573        |
| Net assets used for a television production under an in-house appropriation |                    | 125 000            |                    | 125 000             | 150 000             |
| Unappropriated net assets                                                   | <u>\$9 172 787</u> |                    |                    | <u>9 172 787</u>    | <u>4 212 715</u>    |
| <b>CLOSING BALANCE OF NET ASSETS</b>                                        | <u>\$9 172 787</u> | <u>\$2 448 057</u> | <u>\$9 878 113</u> | <u>\$21 498 957</u> | <u>\$16 279 288</u> |

The notes are an integral part of these financial statements.

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                                     | 2005                |                     |                      |                      | 2004                 |
|---------------------------------------------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
|                                                                     | General Fund        | Fixed Assets Fund   | Start-up Fund        | Total                | Total                |
| <b>ASSETS</b>                                                       |                     |                     |                      |                      |                      |
| <b>Current assets</b>                                               |                     |                     |                      |                      |                      |
| Cash and cash equivalents (Note 5)                                  | \$11 905 980        |                     | \$7 351 831          | \$19 257 811         | \$7 445 257          |
| Short-term investments                                              |                     |                     |                      |                      | 1 250 903            |
| Gouvernement du Québec subsidies receivable (Note 6)                |                     | \$5 527 153         |                      | 5 527 153            | 5 551 318            |
| Accounts receivable (Note 7)                                        | 2 144 263           | 160 000             | 25 217               | 2 329 480            | 506 696              |
| Interfund accounts receivable, interest-free, no terms of repayment | 2 030 689           |                     |                      |                      |                      |
| Prepaid assets                                                      | 405 866             |                     | 436 463              | 842 329              | 272 599              |
|                                                                     | <u>16 486 798</u>   | <u>5 687 153</u>    | <u>7 813 511</u>     | <u>27 956 773</u>    | <u>15 026 773</u>    |
| <b>Deferred discount and long-term debt issuing charges</b>         |                     |                     |                      |                      |                      |
|                                                                     |                     | 318 320             |                      | 318 320              | 383 089              |
| <b>Gouvernement du Québec subsidies receivable (Note 6)</b>         |                     |                     |                      |                      |                      |
|                                                                     |                     | 40 847 000          | 131 807 238          | 172 654 238          | 128 644 356          |
| <b>Fixed assets (Note 10)</b>                                       |                     |                     |                      |                      |                      |
|                                                                     |                     | 45 040 167          | 125 352 178          | 170 392 345          | 97 590 039           |
| <b>Participation in a television production (Note 11)</b>           |                     |                     |                      |                      |                      |
|                                                                     |                     | 125 000             |                      | 125 000              | 150 000              |
| <b>Deposit on acquisition of fixed assets (Note 8)</b>              |                     |                     |                      |                      |                      |
|                                                                     |                     |                     |                      |                      | <u>35 000 000</u>    |
|                                                                     | <u>\$16 486 798</u> | <u>\$92 017 640</u> | <u>\$264 972 927</u> | <u>\$371 446 676</u> | <u>\$276 794 257</u> |



## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)  
as at March 31, 2005

|                                                                     | 2005                |                                        |                      |                                         | 2004                                    |
|---------------------------------------------------------------------|---------------------|----------------------------------------|----------------------|-----------------------------------------|-----------------------------------------|
|                                                                     | General Fund        | Fixed Assets Fund                      | Start-up Fund        | Total                                   | Total                                   |
| <b>LIABILITIES</b>                                                  |                     |                                        |                      |                                         |                                         |
| <b>Current liabilities</b>                                          |                     |                                        |                      |                                         |                                         |
| Accounts payable and accruals                                       | \$3 904 887         | \$195 335                              | \$13 723 982         | \$17 824 204                            | \$14 241 944                            |
| Short-term borrowings (Note 12)                                     |                     | 665 407                                | 130 996 964          | 131 662 371                             | 78 946 888                              |
| Interest payable                                                    |                     | 1 183 534                              | 306 721              | 1 490 255                               | 894 460                                 |
| Provision for vacation time                                         | 1 481 947           |                                        | 33 175               | 1 515 122                               | 1 151 489                               |
| Interfund accounts receivable, interest-free, no terms of repayment |                     | 368 389                                | 1 662 300            |                                         |                                         |
| Instalments on long-term debt (Note 13)                             |                     | 4 333 293                              |                      | 4 333 293                               | 4 333 293                               |
|                                                                     | <u>5 386 834</u>    | <u>6 745 958</u>                       | <u>146 723 142</u>   | <u>156 825 245</u>                      | <u>99 568 074</u>                       |
| <b>Provision for sick leave</b> (Note 14)                           | 1 871 042           |                                        | 4 270                | 1 875 312                               | 1 748 305                               |
| <b>Deferred revenue</b>                                             |                     | 160 000                                |                      | 160 000                                 |                                         |
| <b>Deferred Gouvernement du Québec subsidies</b> (Note 15)          | 56 135              | 42 482 031                             | 108 367 402          | 150 905 568                             | 114 683 703                             |
| <b>Long-term debt</b> (Note 13)                                     | <u>7 314 011</u>    | <u>40 181 594</u><br><u>89 569 583</u> | <u>255 094 814</u>   | <u>40 181 594</u><br><u>349 947 719</u> | <u>44 514 887</u><br><u>260 514 969</u> |
| <b>NET ASSETS</b>                                                   | <u>9 172 787</u>    | <u>2 448 057</u>                       | <u>9 878 113</u>     | <u>21 498 957</u>                       | <u>16 279 288</u>                       |
|                                                                     | <u>\$16 486 798</u> | <u>\$92 017 640</u>                    | <u>\$264 972 927</u> | <u>\$371 446 676</u>                    | <u>\$276 794 257</u>                    |

**COMMITMENTS** (Note 18)**CONTINGENCIES** (Note 19)**MERGER WITH THE ARCHIVES NATIONALES DU QUÉBEC** (Note 22)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Lise Bissonnette  
Jacques Desautels

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

## CASH FLOWS

for the year ended March 31, 2005

|                                                                           | 2005               |                    |                       |                       | 2004                  |
|---------------------------------------------------------------------------|--------------------|--------------------|-----------------------|-----------------------|-----------------------|
|                                                                           | General Fund       | Fixed Assets Fund  | Start-up Fund         | Total                 | Total                 |
| <b>OPERATING ACTIVITIES</b>                                               |                    |                    |                       |                       |                       |
| Excess revenue over expenditure (expenditure over revenue)                | \$5 740 479        | \$(800 060)        | \$279 250             | \$5 219 669           | \$1 349 948           |
| Adjustments for:                                                          |                    |                    |                       |                       |                       |
| Loss of sale of assets                                                    |                    | 229 043            |                       | 229 043               | 37 309                |
| Depreciation of fixed assets and participation in a television production |                    | 1 143 672          | 753 503               | 1 897 175             | 1 422 315             |
| Amortization of deferred subsidies                                        | (4 587 766)        | (637 423)          | (6 896 123)           | (12 121 312)          | (4 012 855)           |
| Amortization of deferred discount and long-term debt issuing charges      |                    | 64 768             |                       | 64 768                | 42 939                |
|                                                                           | <u>1 152 713</u>   |                    | <u>(5 863 370)</u>    | <u>(4 710 657)</u>    | <u>(1 160 344)</u>    |
| Change in non-cash elements                                               |                    |                    |                       |                       |                       |
| Accounts receivable                                                       | (1 682 715)        |                    | 19 931                | (1 662 784)           | (307 285)             |
| Subsidies receivable                                                      | 5 036 688          | (679 230)          | 2                     | 4 357 460             | (165 390)             |
| Prepaid expenses                                                          | (197 803)          |                    | (371 927)             | (569 730)             | (119 035)             |
| Accounts payable and accruals                                             | 1 044 959          |                    | 11 188 451            | 12 233 410            | 761 233               |
| Interest paid                                                             |                    | 455 965            | 139 830               | 595 795               | 26 385                |
| Provision for vacation time                                               | 446 208            |                    | (82 575)              | 363 633               | 132 081               |
| Provision for sick leave                                                  | 157 162            |                    | (30 155)              | 127 007               | 98 421                |
|                                                                           | <u>5 957 212</u>   | <u>(223 265)</u>   | <u>5 000 187</u>      | <u>10 734 134</u>     | <u>(733 934)</u>      |
| <b>INVESTMENT ACTIVITIES</b>                                              |                    |                    |                       |                       |                       |
| (Note 20)                                                                 |                    |                    |                       |                       |                       |
| Change in short-term investments                                          | 1 250 903          |                    |                       | 1 250 903             | (43 865)              |
| Purchase of fixed assets                                                  |                    | (31 853 207)       | (51 701 466)          | (83 554 673)          | (39 308 810)          |
| Participation in a television production                                  |                    |                    |                       |                       | (50 000)              |
| Deposit on acquisition of fixed assets                                    |                    | 35 000 000         |                       | 35 000 000            | (35 000 000)          |
|                                                                           | <u>1 250 903</u>   | <u>3 146 793</u>   | <u>(51 701 466)</u>   | <u>(47 303 770)</u>   | <u>(74 402 675)</u>   |
| Amounts carried forward                                                   | <u>\$7 208 115</u> | <u>\$2 923 528</u> | <u>\$(46 701 279)</u> | <u>\$(36 569 636)</u> | <u>\$(75 136 609)</u> |

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

CASH FLOWS (cont'd)  
for the year ended March 31, 2005

|                                                                  | 2005                |                    |                    |                     | 2004               |
|------------------------------------------------------------------|---------------------|--------------------|--------------------|---------------------|--------------------|
|                                                                  | General Fund        | Fixed Assets Fund  | Start-up Fund      | Total               | Total              |
| Amounts brought forward                                          | \$7 208 115         | \$2 923 528        | \$(46 701 279)     | \$(36 569 636)      | \$(75 136 609)     |
| <b>FINANCING ACTIVITIES</b>                                      |                     |                    |                    |                     |                    |
| Increase in short-term borrowings                                |                     | 400 307            | 52 315 176         | 52 715 483          | 41 989 014         |
| Increase in long-term debts                                      |                     |                    |                    |                     | 35 937 478         |
| Repayment of long-term debt                                      |                     | (4 333 293)        |                    | (4 333 293)         | (739 545)          |
| Increase in deferred discount and long-term debt issuing charges |                     |                    |                    |                     | (251 563)          |
|                                                                  |                     | <u>(3 932 986)</u> | <u>52 315 176</u>  | <u>48 382 190</u>   | <u>76 935 384</u>  |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>          | 7 208 115           | (1 009 458)        | 5 613 897          | 11 812 554          | 1 798 775          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>              | 7 083 805           |                    | 361 452            | 7 445 257           | 5 646 482          |
| Interfund contributions                                          | (780 407)           | 780 407            |                    |                     |                    |
| Change in interfund receivables                                  | <u>(1 605 533)</u>  | <u>229 051</u>     | <u>1 376 482</u>   |                     |                    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)</b>           | <u>\$11 905 980</u> |                    | <u>\$7 351 831</u> | <u>\$19 257 811</u> | <u>\$7 445 257</u> |

See Note 20 for further cash flow information.

The notes are an integral part of these financial statements.

**BIBLIOTHÈQUE NATIONALE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS**  
March 31, 2005

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**1. CONSTITUTION AND PURPOSE**

The Bibliothèque nationale du Québec was established by the Act respecting the Bibliothèque nationale du Québec (R.S.Q., c. B-2.2). Its purpose is to offer democratic access to culture and knowledge and, in this regard, to act as a catalyst vis-à-vis Québec's documentary institutions. Its mandate also includes assembling, preserving and disseminating Québec's published-document heritage, any related document of cultural interest and documents relating to Québec published outside Québec.

Under the legislation creating it, the Bibliothèque nationale du Québec is an agent of the State and, as such, does not pay income tax.

**2. PURPOSE OF THE FUNDS**

The Operating Fund discloses the Bibliothèque nationale du Québec's current operations. The Fixed Assets Fund discloses the assets, liabilities and operations related to fixed assets. The Start-up Fund presents operations preceding and required for opening the lending building up to the public and resulting from the Gouvernement du Québec authorizations mentioned in Note 10.

**3. ACCOUNTING POLICIES**

The financial statements of the Bibliothèque nationale were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Subsidies recording**

The Bibliothèque nationale uses the deferral method to record subsidies. Subsidies are entered on the books when received or receivable if the amount receivable can be reasonably estimated and is reasonably certain to be received. Unappropriated subsidies are posted to the Operating Fund as the fiscal year proceeds. Appropriated subsidies are recorded as proceeds from the appropriate fund during the fiscal year in which the related expenditures were charged.

Subsidies receivable for fixed assets and their maintenance and for specific projects are recorded during the fiscal year in which the Bibliothèque nationale incurred the expenses and obtained the funding entitling it to these subsidies.

**Collections**

Library documents are intended for lending or regular consultation and belong to fixed assets. Given their specific nature, heritage collection documents, described in Note 4, are not included under the definition of fixed assets and are not 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 Export Review Board Commission, 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 the difficulty in determining their fair value.

**Term deposits**

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

**Deferred discount and long-term debt issuing charges**

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

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 3. ACCOUNTING POLICIES (cont'd)

#### Fixed assets

Fixed assets are recorded at cost. Works of art and property are not amortized. The other fixed assets are amortized using the straight-line method over their estimated service life based on the date they were used.

The cost of the fixed assets for the Start-up Fund includes the purchase price, installation costs and short-term financing costs related to their acquisition until the date they become operational. Amortization of these fixed assets begins when they are used.

#### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Bibliothèque nationale lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### Cash and cash equivalents

The Bibliothèque's policy is to present as cash and cash equivalents bank balances and short-term investments maturing within three months of their acquisition date.

### 4. HERITAGE COLLECTION

The Bibliothèque nationale's 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; private archives in the fields of literature and the fine arts; electronic publications; publications disseminated on the Internet.

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.

Included in the year's acquisitions are rare and precious books valued at \$4 548 650 from the Bibliothèque centrale de Montréal collection.

### 5. CASH AND CASH EQUIVALENTS

|                                                                                  | 2005                |                    |                     | 2004               |
|----------------------------------------------------------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                                                                  | General<br>Fund     | Start-up<br>Fund   | Total               | Total              |
| Cash on hand                                                                     | \$3 923 371         | \$3 361 591        | \$7 284 962         | \$1 168 972        |
| Short-term investments maturing within three<br>months of their acquisition date | 7 982 609           | 3 990 240          | 11 972 849          | 6 276 285          |
|                                                                                  | <u>\$11 905 980</u> | <u>\$7 351 831</u> | <u>\$19 257 811</u> | <u>\$7 445 257</u> |

Short-term investments comprise term deposits.

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**6. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

In the Operating Fund, Gouvernement du Québec subsidies receivable presented in the short term correspond to subsidies granted the Bibliothèque nationale but not yet paid. In the Fixed Assets Fund, subsidies receivable presented in the short term correspond to interest accrued on the long-term debt and to capital repayments on the long-term debt to be made the next fiscal year. In the Fixed Assets Fund and Start-up Fund, subsidies receivable presented in the long-term represent total Gouvernement du Québec commitments related to fixed assets and their maintenance as well as specific projects minus capital repayments on the long-term debt already made or to be made in the next fiscal year.

**7. ACCOUNTS RECEIVABLE**

|                                                               | 2005               |                   |                 | 2004               |
|---------------------------------------------------------------|--------------------|-------------------|-----------------|--------------------|
|                                                               | General Fund       | Fixed Assets Fund | Start-up Fund   | Total              |
| Montréal City                                                 | \$1 706 612        |                   |                 | \$1 706 612        |
| Minister of Emploi, de la Solidarité sociale et de la Famille | 91 175             | \$160 000         |                 | 251 175            |
| Other accounts                                                | 346 476            |                   | \$25 217        | 371 693            |
|                                                               | <u>\$2 144 263</u> | <u>\$160 000</u>  | <u>\$25 217</u> | <u>\$2 329 480</u> |
|                                                               |                    |                   |                 | <u>\$506 696</u>   |

**8. VILLE DE MONTRÉAL FINANCIAL CONTRIBUTION**

On January 26, 2004, the Bibliothèque nationale 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 (BCM) collection, related material resources, the collection's preservation and enrichment and its documentary processing. This agreement also provided for seconding Ville de Montréal employees. At March 31, 2004, since the Bibliothèque nationale did not own the BCM collection, the latter was treated as a deposit on acquisitions. However, on March 31, 2005, it was included in the Bibliothèque nationale's fixed assets and heritage collection. No amortization was calculated for this asset since it was not yet being used at this date.

The Ville de Montréal will make a financial contribution of \$7 million indexed annually to Bibliothèque nationale operations. This agreement runs 5 years. For the fiscal year ending March 31, 2005 a prorated amount of \$1 706 612 was calculated and recorded as the Ville de Montréal's financial contribution.

**9. INTERFUND CONTRIBUTIONS**

Amounts totalling \$780 407 (2004: \$706 274) were transferred from the Operating Fund to the Fixed Assets Fund during the fiscal year in order to finance fixed asset acquisitions, their amortization and gains and losses on disposal.

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. FIXED ASSETS**

|                                                               | Service life                | 2005                |                          |                     | 2004                |
|---------------------------------------------------------------|-----------------------------|---------------------|--------------------------|---------------------|---------------------|
|                                                               |                             | Fixed Assets Fund   |                          |                     |                     |
|                                                               |                             | Cost                | Accumulated depreciation | Net value           | Net value           |
| Land                                                          |                             | \$994 000           |                          | \$994 000           | \$994 000           |
| Property improvements                                         | 10 years                    | 6 325               | \$755                    | 5 570               | 3 201               |
| Building                                                      | 40 years                    | 11 705 426          | 1 056 092                | 10 649 334          | 10 991 898          |
| Building improvements                                         | 20 years                    | 188 369             | 12 286                   | 176 083             | 95 841              |
| Office furniture and equipment                                | 10 years                    | 2 122 347           | 782 790                  | 1 339 557 *         | 1 041 517           |
| Data processing and telecommunications equipment and software | 3 to 10 years               | 2 179 245           | 1 263 296                | 915 949             | 893 874             |
| Software programs developed                                   | 5 years                     | 210 704             | 45 027                   | 165 677             | 48 976              |
| Leasehold improvements                                        | Remaining duration of lease |                     |                          |                     | 153 456             |
| Other equipment                                               | 5 years                     | 283 390             | 132 319                  | 151 071             | 146 095             |
| Rolling stock                                                 | 5 years                     | 32 888              | 1 312                    | 31 576              |                     |
| Library documents                                             | 3 to 10 years               | 30 611 350          |                          | 30 611 350          |                     |
|                                                               |                             | <u>\$48 334 044</u> | <u>\$3 293 877</u>       | <u>\$45 040 167</u> | <u>\$14 368 858</u> |

\* At March 31, 2005, a value of \$145 310 was recorded under services rendered on the manufacture of equipment to be delivered in early April. This equipment was not amortized at March 31, 2005.

|                                                               | Service life  | 2005                 |                          |                      | 2004                |
|---------------------------------------------------------------|---------------|----------------------|--------------------------|----------------------|---------------------|
|                                                               |               | Start-up Fund        |                          |                      |                     |
|                                                               |               | Cost                 | Accumulated depreciation | Net value            | Net value           |
| Land                                                          |               | \$9 598 863          |                          | \$9 598 863          | \$9 598 863         |
| Building                                                      | 40 years      | 79 619 608           | \$79 862                 | 79 539 746 *         |                     |
| Parking                                                       | 40 years      | 7 568 209            |                          | 7 568 209            |                     |
| Construction in progress                                      |               |                      |                          |                      | 61 647 632          |
| Office furniture and equipment                                | 10 years      | 3 753 610            | 76 963                   | 3 676 647            | 278 706             |
| Data processing and telecommunications equipment and software | 3 to 10 years | 3 916 709            | 526 942                  | 3 389 767            | 1 023 752           |
| Software programs developed                                   | 5 years       | 6 720 971            | 252 054                  | 6 468 917            | 3 818 783           |
| Software programs in developing                               |               | 473 489              |                          | 473 489              |                     |
| Other equipment                                               | 5 years       | 1 136 806            | 15 330                   | 1 121 476            | 4 137               |
| Works of art                                                  |               | 279 250              |                          | 279 250              |                     |
| Library documents                                             | 3 to 10 years | 11 696 780           |                          | 11 696 780           | 5 921 395           |
| Bookbinding costs                                             | 3 to 10 years | 1 539 034            |                          | 1 539 034            | 927 913             |
|                                                               |               | <u>\$126 303 329</u> | <u>\$951 151</u>         | <u>\$125 352 178</u> | <u>\$83 221 181</u> |

\* Amortization of the building was calculated as of January 1, 2005, the date employees occupied it. The figure used was 17%, based on the surface area used by the administrative sectors.

On January 19, 2000, the Gouvernement du Québec authorized the acquisition of the Palais du commerce site and the construction of a building measuring 33 000 square feet. The total estimated cost of this project was \$90 636 310. Under an Order-in-Council of November 6, 2002, this project's total estimated cost was increased to \$97 636 310 excluding short-term financing charges, which were capitalized for a cumulative amount of \$4 118 911 at March 31, 2005 (2004: \$2 413 615). The cumulated costs as at March 31, 2005 totalled \$98 834 859 and break down as follows:

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. FIXED ASSETS (cont'd)**

|                                                    | 2005                |                                    | 2004                |
|----------------------------------------------------|---------------------|------------------------------------|---------------------|
|                                                    | Cost                | Short-term<br>financing<br>charges | Total<br>costs      |
| Land                                               | \$9 349 715         | \$249 148                          | \$9 598 863         |
| Building                                           | 75 798 451          | 3 928 560                          | 79 727 011          |
| Construction in progress                           |                     |                                    | 55 264 478          |
| Office furniture and equipment                     | 3 735 739           | 46 565                             | 278 706             |
| Other equipment                                    | 1 129 911           | 4 214                              | 1 134 125           |
| Data processing and telecommunication<br>equipment | 3 265 183           | 171 432                            | 1 214 680           |
| Works of art                                       | 279 250             |                                    | 279 250             |
| Miscellaneous expenditures                         | 847 541             | 29 150                             | 876 691             |
|                                                    | <u>\$94 405 790</u> | <u>\$4 429 069</u>                 | <u>\$98 834 859</u> |
|                                                    |                     |                                    | <u>\$66 356 727</u> |

On July 26, 2000, the Gouvernement du Québec authorized the construction of a 440-space parking lot. The total projected cost for the project was \$8 000 000 excluding short-term financing charges. Following the elimination of 40 parking spaces, the Bibliothèque nationale adjusted the expected project cost to \$7 359 500 excluding short-term financing costs, which were capitalized in their entirety at March 31, 2005. The cumulated costs at March 31, 2005 totalled \$7 568 209 and break down as follows:

|                          | 2005               |                                    | 2004               |
|--------------------------|--------------------|------------------------------------|--------------------|
|                          | Cost               | Short-term<br>financing<br>charges | Total<br>costs     |
| Parking                  | \$7 130 985        | \$437 224                          | \$7 568 209        |
| Construction in progress |                    |                                    | \$6 383 154        |
|                          | <u>\$7 130 985</u> | <u>\$437 224</u>                   | <u>\$7 568 209</u> |
|                          |                    |                                    | <u>\$6 383 154</u> |

On September 12, 2001, the Gouvernement du Québec authorized the acquisition of library documents and the computer and telecommunications developments required for the lending building to open. The maximum amount of borrowings authorized to finance the cost was \$17 200 000 for the documents and \$12 700 000 for the computer and telecommunications developments excluding short-term financing costs, which were capitalized for a cumulative amount of \$526 788 at March 31, 2005 (2004: \$223 550). The cumulated costs as at March 31, 2005 totalled \$20 461 868 and break down as follows:

|                                                                 | 2005                |                                    | 2004                |
|-----------------------------------------------------------------|---------------------|------------------------------------|---------------------|
|                                                                 | Cost                | Short-term<br>financing<br>charges | Total<br>costs      |
| Uncapitalizable training costs                                  | \$291 273           | \$7 550                            | \$298 823           |
| Data processing and telecommunication<br>equipment and software | 620 793             | 4 579                              | 625 372             |
| Software packages developed                                     | 6 644 375           | 107 291                            | 6 751 666           |
| Software packages in developing                                 | 380 363             | 93 126                             | 473 489             |
| Library documents                                               | 11 339 712          | 357 068                            | 11 696 780          |
| Membership                                                      | 204 905             |                                    | 204 905             |
| Prepaid expenses                                                | 410 833             |                                    | 410 833             |
|                                                                 | <u>\$19 892 254</u> | <u>\$569 614</u>                   | <u>\$20 461 868</u> |
|                                                                 |                     |                                    | <u>\$9 931 608</u>  |



## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. FIXED ASSETS (cont'd)**

On March 27, 2002, the Gouvernement du Québec authorized the processing of documents that the public could consult on-site or borrow. The maximum amount of short-term borrowings to finance the cost was \$14 100 000 excluding short-term financing charges, which were capitalized in their entirety for binding costs only. The cumulated costs at March 31, 2005, totalled \$12 593 695 and break down as follows:

|                                     | 2005                |                                    | 2004                |
|-------------------------------------|---------------------|------------------------------------|---------------------|
|                                     | Cost                | Short-term<br>financing<br>charges | Total<br>costs      |
| Uncapitalizable document processing | \$10 664 012        | \$383 754                          | \$11 047 766        |
| Binding costs                       | 1 479 574           | 59 460                             | 1 539 034           |
| Other equipment                     | 6 895               |                                    | 6 895               |
|                                     | <u>\$12 150 481</u> | <u>\$443 214</u>                   | <u>\$12 593 695</u> |
|                                     |                     |                                    | <u>\$7 494 542</u>  |

**11. PARTICIPATION IN A TELEVISION PRODUCTION**

The Bibliothèque nationale participates with Télé-Québec in a sponsorship project related to a television production on the Bibliothèque nationale. The amount related to this participation totals \$150 000 and covers two episodes. The cost of this participation will be amortized according to the number of broadcasts planned by episode. Episode I was first broadcast in fiscal 2004-2005, resulting in amortization of \$25 000 in the results.

**12. SHORT-TERM BORROWINGS**

The Bibliothèque nationale borrows the amounts required to start up its operations in the lending building from the Gouvernement du Québec's Financing Fund. The maximum authorized by the Gouvernement du Québec for short-term borrowings for this purpose is \$159 753 663 excluding short-term financing charges. The Bibliothèque nationale is also authorized to contract short-term borrowings for the maintenance of its assets of up to \$852 665. The Gouvernement du Québec committed to paying the Bibliothèque nationale the amounts needed to supplement payment of its obligations should it not be able to meet them for one of its short-term borrowings. The credit lines bear interest at the average rate of one-month bank acceptances plus 0.3%. At March 31, the credit line interest rate was 2.89429 % and the credit line broke down as follows:

|                                                                              | 2005                 | 2004                |
|------------------------------------------------------------------------------|----------------------|---------------------|
| Start-up of operations in lending building                                   |                      |                     |
| Land, construction of building and acquisition<br>of equipment and furniture | \$93 913 256         | \$57 217 719        |
| Construction of parking lot                                                  | 7 499 318            | 5 924 649           |
| Acquisition of library documents                                             | 10 959 717           | 5 018 494           |
| Computer and telecommunications development                                  | 7 153 329            | 3 528 362           |
| Library document processing                                                  | 11 471 344           | 6 992 564           |
|                                                                              | <u>130 996 964</u>   | <u>78 681 788</u>   |
| Asset maintenance                                                            | <u>665 407</u>       | <u>265 100</u>      |
|                                                                              | <u>\$131 662 371</u> | <u>\$78 946 888</u> |

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**13. LONG-TERM DEBT**

|                                                                                                                                                                                                                       | 2005                | 2004                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Borrowings on a note from the Financing Fund of the Gouvernement du Québec:                                                                                                                                           |                     |                     |
| - 6.5% (effective rate of 6.812%), repayable in annual instalments of \$685 916 until October 1, 2006 and a final instalment of \$10 288 740 on October 1, 2007                                                       | \$11 660 572        | \$12 346 488        |
| - 6.5% (effective rate of 6.812%), repayable in annual instalments of \$26 593 until October 1, 2006 and a final instalment of \$132 967 on October 1, 2007                                                           | 186 153             | 212 747             |
| - 6.296% (effective rate of 6.431%), repayable in annual instalments of \$27 036 until June 28, 2009 and a final instalment of \$189 251 on June 28, 2010, guaranteed by a real estate mortgage without dispossession | 324 431             | 351 467             |
| - 5.169% (effective rate of 5.323%), repayable in annual instalments of \$69 075 until October 1, 2013                                                                                                                | 621 676             | 690 751             |
| - 4.932% (effective rate of 5.093%), repayable in annual instalments of \$3 524 673 until October 1, 2013                                                                                                             | 31 722 055          | 35 246 727          |
|                                                                                                                                                                                                                       | 44 514 887          | 48 848 180          |
| Instalments due within one year                                                                                                                                                                                       | 4 333 293           | 4 333 293           |
|                                                                                                                                                                                                                       | <u>\$40 181 594</u> | <u>\$44 514 887</u> |

The amount of capital payments on short-term borrowings over the next five fiscal years breaks down as follows:

|      |             |
|------|-------------|
| 2006 | \$4 333 293 |
| 2007 | 4 333 293   |
| 2008 | 14 042 491  |
| 2009 | 3 620 784   |
| 2010 | 3 620 784   |

The capital and interest on short-term borrowings are guaranteed by the Gouvernement du Québec, which has committed to paying a subsidy for their repayment.

**14. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Bibliothèque nationale participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CCSP), Pension Plan for Senior Officials (PPSO) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Bibliothèque nationale's contributions charged to the year-end statement amount to \$536 661 (2004: \$438 206). The liability of the Bibliothèque nationale towards these Government plans is restricted to its contributions as an employer.

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**14. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

|                               | 2005               |                |                    | 2004               |
|-------------------------------|--------------------|----------------|--------------------|--------------------|
|                               | General Fund       | Start-up Fund  | Total              | Total              |
| Opening balance               | \$1 713 880        | \$34 425       | \$1 748 305        | \$1 649 884        |
| Charge for the year           | 488 397            | (9 449)        | 478 948            | 503 620            |
| Benefits paid during the year | (331 235)          | (20 706)       | (351 941)          | (405 199)          |
| Closing balance               | <u>\$1 871 042</u> | <u>\$4 270</u> | <u>\$1 875 312</u> | <u>\$1 748 305</u> |

The negative balance of charges for the fiscal year in the Start-up Fund are due to the fact that employees are transferred to the Operating Fund.

**15. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES**

|                                                | 2005            |                     |                      | 2004                 |
|------------------------------------------------|-----------------|---------------------|----------------------|----------------------|
|                                                | General Fund    | Fixed Assets Fund   | Start-up Fund        | Total                |
| Opening balance                                | \$95 251        | \$47 349 288        | \$67 239 164         | \$114 683 703        |
| Increase in Gouvernement du Québec commitments | 4 548 650       | (4 229 834)         | 48 024 361           | 48 343 177           |
| Amortization for the fiscal year               | (4 587 766)     | (637 423)           | (6 896 123)          | (12 121 312)         |
| Closing balance                                | <u>\$56 135</u> | <u>\$42 482 031</u> | <u>\$108 367 402</u> | <u>\$150 905 568</u> |

**16. FINANCIAL EXPENSES**

|                                                                          | 2005            |                    |                  | 2004               |
|--------------------------------------------------------------------------|-----------------|--------------------|------------------|--------------------|
|                                                                          | General Fund    | Fixed Assets Fund  | Start-up Fund    | Total              |
| Interest and bank charges                                                | \$11 282        |                    |                  | \$11 282           |
| Interest on long-term debt                                               |                 | \$2 492 875        |                  | 2 492 875          |
| Interest on short-term borrowings                                        |                 | 11 791             | \$494 237        | 506 028            |
| Amortization of the deferred discount and long-term debt issuing charges |                 | 64 768             |                  | 64 768             |
|                                                                          | <u>\$11 282</u> | <u>\$2 569 434</u> | <u>\$494 237</u> | <u>\$3 074 953</u> |

Capitalized interest on fixed assets in the fiscal year totalled \$2 600 667 (2004: \$1 599 782).

**17. FINANCIAL INSTRUMENTS****INTEREST RATE RISK**

The Bibliothèque nationale's financial assets and liabilities bear interest at a fixed rate. Consequently, the risk of fluctuating rates to which latter is exposed is minimal.

**BIBLIOTHÈQUE NATIONALE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**17. FINANCIAL INSTRUMENTS (cont'd)****FAIR VALUE OF FINANCIAL INSTRUMENTS****Gouvernement du Québec subsidies receivable**

Given that the Gouvernement du Québec subsidies receivable for long-term borrowings are subject to the same conditions as the borrowings in question, as at March 31, 2005, the fair value of the Gouvernement du Québec subsidy receivable of \$178 181 391 (2004: \$134 195 674) is \$180 819 773 (2004: \$135 574 643), i.e. the sum of the fair value of the long-term debt plus the Government's commitments for specific projects.

**Long-term debt**

At March 31, 2005, the fair value of long-term debts of \$44 514 887 (2004: \$48 848 180) was \$46 957 847 (2004: \$51 222 809), given the discounting of cash flows to market interest rates for securities with similar conditions and characteristics.

**Other assets and liabilities**

The fair value of cash and cash equivalents, short-term investments, receivables, payables and accrued liabilities, short-term borrowings and interest payable equals their book value, given the short time lapse before they mature.

**AUTHORIZED CREDIT LINE**

The Bibliothèque nationale has an authorized credit line of \$1 000 000, with a bank, renewable annually on March 31. Of this amount, \$335 000 was allocated to an endorsement letter. At March 31, 2005, no amount was withdrawn.

**18. COMMITMENTS**

The Bibliothèque nationale has made commitments under operating leases ending on different dates until July 31, 2006 for offices and equipment. The expenditure for the fiscal year ended March 31, 2005 for these contracts totalled \$1 266 692, of which \$1 107 143 concerns leases signed with the Société immobilière du Québec (SIQ). At March 31, 2005, the BNQ no longer had a signed lease with the SIQ. The penalty for terminating equipment contracts is \$17 420.

The Bibliothèque nationale also entered into contracts for various services and expenditures related to fixed assets. At year-end, these commitments were as follows:

|                                             | <u>2005</u>                |
|---------------------------------------------|----------------------------|
| For operations                              | \$640 000                  |
| For start-up of lending building operations | <u>17 562 620</u>          |
|                                             | <u><u>\$18 202 620</u></u> |

The Bibliothèque nationale also committed to awarding teaching establishments or individuals amounts totalling \$77 000 annually in order to support research and training in library science.

**19. CONTINGENCIES**

The Bibliothèque nationale du Québec issued an irrevocable bank guarantee letter in favour of the City of Montréal totalling \$335 000. This guarantee covers potential municipal repair work resulting from construction work. It is issued for one year but renewable until the work authorized by the City of Montréal is completed. It becomes null and void the 61st day after receiving an expiration notice from the City of Montréal. It is impossible to estimate the potential costs associated with this guarantee. Consequently, no provision has been entered on the books.

## BIBLIOTHÈQUE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**19. CONTINGENCIES (cont'd)**

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 entered into, alleging that calls for tender conditions were breached. It is suing the Bibliothèque nationale for \$3 405 034 plus interest plus the additional compensation provided for in the Québec Civil Code. The Bibliothèque nationale 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. It is impossible to reasonably foresee the outcome of these two proceedings. Consequently, no provision has been entered on the books.

**20. ADDITIONAL INFORMATION CONCERNING CASH FLOWS**

|                                                                          | 2005               | 2004                |
|--------------------------------------------------------------------------|--------------------|---------------------|
| a) Interest paid                                                         | <u>\$2 247 497</u> | <u>\$889 725</u>    |
| b) Operations not affecting cash flows related to investment activities: |                    |                     |
| Fixed asset purchases financed from accounts receivable                  | <u>\$2 670 256</u> | <u>\$11 321 405</u> |

**21. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in the financial statements, the Bibliothèque nationale 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 Bibliothèque nationale 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.

The Bibliothèque nationale signed an occupancy and space loan agreement in December 2000. The agreement contemplates the loan of offices and equipment, taxes and heating and lighting costs for the conservation activities of the Archives nationales du Québec, an entity reporting to the Ministère de la Culture et des Communications. No consideration is received under this agreement. The book value of this transaction is estimated at \$307 461 (2004: \$308 199).

The Bibliothèque nationale signed an agreement with the Ministère de l'Emploi, de la Solidarité et de la Famille under which Emploi-Québec pledges to assume the Centre Emploi-Carrière's establishment and operating costs related to documentary, human and material resources. Consequently, it agrees to cover the initial acquisition cost (not exceeding \$160 000) of a collection of 4 400 documentary resources that become the Bibliothèque nationale's property. Emploi-Québec also agrees to cover, for a 5-year period, the costs linked to collections' renewal up to \$50 000 per year.

**22. MERGER WITH THE ARCHIVES NATIONALES DU QUÉBEC**

The Act to amend the Act respecting the Bibliothèque nationale du Québec, the Archives Act and other legislative provisions (Q.S., 2004, c. 25) assented to on December 14, 2004, provides for the merger of the Bibliothèque nationale and the Archives nationales du Québec at a date to be determined. At the time these financial statements were being prepared, the financial impact of this merger on the Bibliothèque nationale's assets and liabilities could not be determined.

**BIBLIOTHÈQUE NATIONALE DU QUÉBEC**

## MANAGEMENT'S REPORT

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The financial statements of the Bibliothèque nationale du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Bibliothèque nationale 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 audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Bibliothèque's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Lise Bissonnette  
President-Director General

Monique Goyette  
Director General, Administration and  
In-house Services

Montréal, June 10, 2005

**BIBLIOTHÈQUE NATIONALE DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Bibliothèque nationale du Québec as at March 31, 2005, the statements of income, changes in net assets and the cash flow statement for the year then ended. These financial statements are the responsibility of Bibliothèque management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Bibliothèque's financial position as at March 31, 2005 and the results of its operations and cash flows 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, given the retroactive application of the changes in accounting policies disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, June 10, 2005

**BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC**  
(R.S.Q., c. B-7.1)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                                                                                    | <u>2005</u>            | <u>2004</u>            |
|----------------------------------------------------------------------------------------------------|------------------------|------------------------|
| <b>REVENUE</b>                                                                                     |                        |                        |
| Contributions                                                                                      | \$160 250              | \$170 350              |
| Revenue under the agreement with the<br>Canadian Professional Fish Harvesters (Note 6)             | 37 092                 | 5 837                  |
| Amortization of deferred contributions                                                             | 447                    | 900                    |
| Other                                                                                              | <u>25 199</u>          | <u>22 774</u>          |
|                                                                                                    | <u>222 988</u>         | <u>199 861</u>         |
| <b>EXPENDITURE</b>                                                                                 |                        |                        |
| Salaries and fringe benefits                                                                       | 104 075                | 104 530                |
| Rent                                                                                               | 5 500                  | 5 500                  |
| Office supplies                                                                                    | 22 559                 | 15 505                 |
| Telecommunications                                                                                 | 2 356                  | 2 273                  |
| Travel and entertainment                                                                           | 15 653                 | 16 820                 |
| Maintenance and repairs                                                                            | 3 023                  | 4 195                  |
| Professional fees                                                                                  | 2 910                  |                        |
| Insurance                                                                                          | 1 196                  | 1 043                  |
| Other expenses related to the agreement with the<br>Canadian Professional Fish Harvesters (Note 6) | 20 092                 | 5 837                  |
| Miscellaneous                                                                                      | 13 378                 | 2 260                  |
| Bank charges                                                                                       | 803                    | 694                    |
| Depreciation of fixed assets                                                                       | <u>2 402</u>           | <u>3 277</u>           |
|                                                                                                    | <u>193 947</u>         | <u>161 934</u>         |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                                             | 29 041                 | 37 927                 |
| <b>SURPLUS, END OF YEAR</b>                                                                        | <u>67 298</u>          | <u>29 371</u>          |
| <b>SURPLUS, END OF YEAR</b>                                                                        | <u><u>\$96 339</u></u> | <u><u>\$67 298</u></u> |



**BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC**BALANCE SHEET  
as at March 31, 2005

|                                                       | <u>2005</u>             | <u>2004</u>             |
|-------------------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                         |                         |                         |
| <b>Current assets</b>                                 |                         |                         |
| Cash on hand                                          | \$212 832               | \$200 821               |
| Accounts receivable (Note 3)                          | 39 509                  | 13 171                  |
| Prepaid expenses                                      | <u>2 274</u>            | <u>1 085</u>            |
|                                                       | 254 615                 | 215 077                 |
| <b>Fixed assets</b> (Note 4)                          | <u>5 896</u>            | <u>7 800</u>            |
|                                                       | <u><u>\$260 511</u></u> | <u><u>\$222 877</u></u> |
| <b>LIABILITIES</b>                                    |                         |                         |
| <b>Current liabilities</b>                            |                         |                         |
| Accounts payable and accrued liabilities              | \$36 676                | \$21 191                |
| Deferred revenue (Note 5)                             | <u>126 400</u>          | <u>132 134</u>          |
|                                                       | 163 076                 | 153 325                 |
| <b>Deferred contributions related to fixed assets</b> | <u>1 096</u>            | <u>2 254</u>            |
|                                                       | 164 172                 | 155 579                 |
| <b>SURPLUS</b>                                        | <u>96 339</u>           | <u>67 298</u>           |
|                                                       | <u><u>\$260 511</u></u> | <u><u>\$222 877</u></u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Jean-Claude Blanchette, Chairman  
Oneil Cloutier, Vice-chairman

**BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC****CASH FLOW**

for the year ended March 31, 2005

|                                                                 | <u>2005</u>             | <u>2004</u>             |
|-----------------------------------------------------------------|-------------------------|-------------------------|
| <b>OPERATING ACTIVITIES</b>                                     |                         |                         |
| Excess revenue over expenditure                                 | \$29 041                | \$37 927                |
| Adjustments for:                                                |                         |                         |
| Depreciation of fixed assets                                    | 2 402                   | 3 277                   |
| Amortization of deferred contributions                          | <u>(447)</u>            | <u>(900)</u>            |
|                                                                 | ..... 30 996            | ..... 40 304            |
| Change in non-cash items related to operations                  |                         |                         |
| Change in accounts receivable                                   | (26 338)                | (2 389)                 |
| Increase in prepaid expenses                                    | (1 189)                 | (149)                   |
| Increase (decrease) in accounts payable and accrued liabilities | 15 485                  | (5 547)                 |
| Decrease in deferred revenue                                    | <u>(5 734)</u>          | <u>(9 025)</u>          |
|                                                                 | ..... (17 776)          | ..... (17 110)          |
| Cash flows provided by operating activities                     | <u>13 220</u>           | <u>23 194</u>           |
| <b>INVESTMENT ACTIVITIES</b>                                    |                         |                         |
| Proceeds from the disposal of fixed assets                      | 30                      |                         |
| Acquisition of fixed assets                                     | <u>(1 239)</u>          | <u>(3 244)</u>          |
| Cash flows used for investment activities:                      | <u>(1 209)</u>          | <u>(3 244)</u>          |
| <b>INCREASE IN CASH ON HAND</b>                                 | 12 011                  | 19 950                  |
| <b>CASH ON HAND, BEGINNING OF YEAR</b>                          | <u>200 821</u>          | <u>180 871</u>          |
| <b>CASH ON HAND, END OF YEAR</b>                                | <u><u>\$212 832</u></u> | <u><u>\$200 821</u></u> |

## BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 1. CONSTITUTION AND PURPOSE

The Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec is a legal person that is an agent of the State. It was created under the Act respecting the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec (R.S.Q., c. B-7.1). The Bureau's mission consists in implementing a system for recognizing the professional qualifications of fishermen and fishermen's assistants in tidal waters except for fishing for anadromous and catadromous species. Under the Québec Taxation Act and the Canadian Income Tax Act, the Bureau pays no income tax.

#### 2. ACCOUNTING POLICIES

The financial statements were prepared by Bureau management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Revenue recording

The Bureau applies the deferral method for recording contributions. According to this method, contributions charged to future fiscal years are deferred and recorded as revenue in the fiscal year in which the related expenses are incurred. Unallocated contributions are recorded as revenue when received or receivable, if the amount receivable can reasonably be estimated and it is reasonably certain that it will be cashed in.

##### Fixed assets

Fixed assets are recorded at the original cost and amortized based on their service life according to the diminishing balance method at the following annual rates:

|                                |     |
|--------------------------------|-----|
| Office furniture and equipment | 20% |
| Computer equipment             | 30% |

#### 3. ACCOUNTS RECEIVABLE

|                                  | 2005            | 2004            |
|----------------------------------|-----------------|-----------------|
| Canadian Fish Harvesters Council | \$35 454        | \$5 837         |
| Federal and provincial taxes     | 2 634           | 4 330           |
| Other                            | 1 421           | 3 004           |
|                                  | <u>\$39 509</u> | <u>\$13 171</u> |

#### 4. FIXED ASSETS

|                                | 2005            |                          | 2004           |
|--------------------------------|-----------------|--------------------------|----------------|
|                                | Cost            | Accumulated depreciation | Net            |
| Office furniture and equipment | \$2 102         | \$1 405                  | \$697          |
| Computer equipment             | 23 486          | 18 287                   | 5 199          |
|                                | <u>\$25 588</u> | <u>\$19 692</u>          | <u>\$5 896</u> |
|                                |                 |                          | <u>\$7 800</u> |

**BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**5. DEFERRED REVENUE**

|                                                                             | <u>2005</u>      | <u>2004</u>      |
|-----------------------------------------------------------------------------|------------------|------------------|
| Registration fees paid by fishermen and fishermen's assistants <sup>a</sup> | <u>\$126 400</u> | <u>\$132 134</u> |

<sup>a</sup> Deferred revenue represents the registration fees paid by fishermen and fishermen's assistants for fiscal 2005-2006. These contributions are designed to cover operating expenses for the coming fiscal year.

**6. AGREEMENT WITH THE CANADIAN FISH HARVESTERS COUNCIL**

The Bureau signed an agreement with the Canadian Fish Harvesters Council to enhance awareness of the professional recognition system among Québec fishermen and to validate the stakes and action to take to consolidate and develop professional recognition in Québec. The expenses incurred by the Bureau under this agreement are reimbursed by the Council. This agreement ran from March 1, 2004 to March 31, 2005.

**7. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Bureau 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 Bureau 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.

**8. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments equals their book value, given that they mature in the near future.

**BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC****MANAGEMENT'S REPORT**

---

The financial statements of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Bureau recognizes that it is responsible for conducting its affairs in accordance with the statutes, regulations and conventions 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 Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec's financial statements in accordance with 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 Bureau to discuss any matter related to the audit.

Jean-Claude Blanchette  
President and Chief Executive Officer

Québec, May 6, 2005

**BUREAU D'ACCREDITATION DES PÊCHEURS ET DES AIDES-PÊCHEURS DU QUÉBEC****AUDITOR'S REPORT**

---

To the National Assembly

I have audited the balance sheet of the Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec as at March 31, 2005, the statement of revenue and expenditure and surplus and the statement of cash flow for the year then ended. These financial statements are the responsibility of Bureau management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

With the exception of the mention in the following paragraph, my audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

The Bureau obtains most of its proceeds in the form of contributions from Québec fishermen and fishermen's assistants for which it is not possible to verify the comprehensiveness satisfactorily. Consequently, my audit is limited to the amounts recorded in the Bureau's accounts and I was unable to determine whether certain adjustments should have been made to contribution income in the short-term assets and the surplus.

In my opinion, with the exception of the effect of the adjustment I might have deemed necessary had I been able to check the comprehensiveness of the contributions mentioned in the previous paragraph, these financial statements present fairly, in all material respects, the Bureau's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 6, 2005

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

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the fourteen-month period ended March 31, 2005

|                                                                   | <u>2005</u>        |
|-------------------------------------------------------------------|--------------------|
| <b>REVENUE</b>                                                    |                    |
| Autorité des marchés financiers contribution                      | \$3 496 676        |
| Fees and related costs                                            | 1 202              |
| Other                                                             | 29 317             |
| Transfers for sick leave and vacation time (Note 6)               | <u>323 789</u>     |
|                                                                   | <u>3 850 984</u>   |
| <b>EXPENDITURE</b>                                                |                    |
| Salaries and fringe benefits                                      | 1 481 081          |
| Rent and fit ups                                                  | 327 477            |
| Operating expenses                                                | 89 864             |
| Professional, administrative and other services                   | 79 870             |
| Part-time members' fees                                           | 68 032             |
| Transportation and communications                                 | 38 525             |
| Amortization of fixed assets                                      | 28 262             |
| Interest on long term debt                                        | <u>1 477</u>       |
|                                                                   | <u>2 114 588</u>   |
| <b>EXCESS REVENUE OVER EXPENDITURE AND<br/>SURPLUS AT THE END</b> | <u>\$1 736 396</u> |

The notes are an integral part of these financial statements.

**BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES**BALANCE SHEET  
as at March 31, 2005

|                                                            | <u>2005</u>               |
|------------------------------------------------------------|---------------------------|
| <b>ASSETS</b>                                              |                           |
| <b>Current assets</b>                                      |                           |
| Cash                                                       | \$346 598                 |
| Accounts receivable                                        | 69 211                    |
| Interest accrued                                           | 6 038                     |
| Short-term investments (Note 3)                            | 1 423 443                 |
| Prepaid expenses                                           | <u>12 841</u>             |
|                                                            | 1 858 131                 |
| <b>Fixed assets</b> (Note 4)                               | <u>743 423</u>            |
|                                                            | <u><u>\$2 601 554</u></u> |
| <b>LIABILITIES</b>                                         |                           |
| <b>Current liabilities</b>                                 |                           |
| Accounts payable and accruals                              | \$78 407                  |
| Instalments on long-term debt (Note 7)                     | <u>35 755</u>             |
|                                                            | 114 162                   |
| <b>Provision for sick leave and vacation time</b> (Note 6) | 435 211                   |
| <b>Long-term debt</b> (Note 7)                             | <u>315 785</u>            |
|                                                            | <u>865 158</u>            |
| <b>SURPLUS</b>                                             |                           |
| Contingency reserve (Note 8)                               | 500 000                   |
| Unappropriated surplus                                     | <u>1 236 396</u>          |
|                                                            | <u>1 736 396</u>          |
|                                                            | <u><u>\$2 601 554</u></u> |

**COMMITMENT** (Note 11)**BUREAU DE DÉCISION ET DE RÉVISION  
EN VALEURS MOBILIÈRES FUND** (Note 12)

The notes are an integral part of these financial statements.

On behalf of management  
Guy Lemoine  
Jacynthe Pichette



**BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES****CASH FLOW**

for the fourteen-month period ended March 31, 2005

|                                                             | <u>2005</u>               |
|-------------------------------------------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                 |                           |
| Excess revenue over expenditure                             | \$1 736 396               |
| Adjustments for:                                            |                           |
| Amortization of fixed assets                                | <u>28 262</u>             |
|                                                             | ..... 1 764 658 .....     |
| Change in non-cash elements related to operating activities |                           |
| Increase in accounts receivable                             | (69 211)                  |
| Increase in interest accrued                                | (6 038)                   |
| Increase in prepaid expenses                                | (12 841)                  |
| Change in accounts payable and accruals (Note 5)            | 45 476                    |
| Provision for sick leave and vacation time                  | <u>435 211</u>            |
|                                                             | ..... 392 597 .....       |
| Cash flows related to operating activities                  | <u>2 157 255</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                |                           |
| Cash flows related to investment activities:                |                           |
| Acquisition of fixed assets                                 | <u>(379 938)</u>          |
| <b>FINANCING ACTIVITIES</b>                                 |                           |
| Cash flows related to financing activities:                 |                           |
| Repayment of long-term debt                                 | <u>(7 276)</u>            |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR (Note 5)</b>  | <u><u>\$1 770 041</u></u> |

The notes are an integral part of these financial statements.

**BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

The Bureau de décision et de révision en valeurs mobilières, a public agency created under section 92 of the Act respecting the Autorité des marchés financiers (R.S.Q., c. A-33.2), began operating in February 2004. At the request of the Autorité des marchés financiers or any interested person, the Bureau exercises the powers provided for in the Securities Act (R.S.Q., c. V-1.1). Further, the Bureau exercises the review power provided for in section 322 of the Securities Act.

Under taxation legislation (R.S.Q., 1985, c. 1, 5th Supplement, s. 149 (1) c) and R.S.Q., c. I-3, s. 984), the Bureau is not subject to income tax.

The Bureau administers and controls the Bureau de décision et de révision en valeurs mobilières Fund. The amounts required for the application of Title IV of the Act respecting the Autorité des marchés financiers, which includes the Bureau's operating expenses, are taken from the Fund. For more complete financial information, the Bureau presents the Fund's operations and assets separately in Note 12.

**2. ACCOUNTING POLICIES**

The Bureau's financial statements were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimated and judgements.

**Fixed assets**

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

|                                |         |
|--------------------------------|---------|
| Data processing equipment      | 3 years |
| Equipment and office furniture | 5 years |
| Leasehold improvements         | 8 years |

**Pension Plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Bureau lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Cash and cash equivalents**

The Bureau's policy consists in presenting 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.

**3. SHORT-TERM INVESTMENTS**

|                                     | Cost               | Fair value         |
|-------------------------------------|--------------------|--------------------|
| Government of Canada T-bills:       |                    |                    |
| - maturing April 21, 2005, at 2.45% | \$735 294          | \$738 956          |
| - maturing May 19, 2005, at 2.48%   | 688 149            | 689 723            |
|                                     | <u>\$1 423 443</u> | <u>\$1 428 679</u> |

## BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. FIXED ASSETS**

|                                | Cost             | Accumulated<br>depreciation | Net              |
|--------------------------------|------------------|-----------------------------|------------------|
| Data processing equipment      | \$53 052         | \$11 597                    | \$41 455         |
| Equipment and office furniture | 159 817          | 5 023                       | 154 794          |
| Leasehold improvements         | 558 816          | 11 642                      | 547 174          |
|                                | <u>\$771 685</u> | <u>\$28 262</u>             | <u>\$743 423</u> |

**5. CASH FLOW****Cash and cash equivalents**

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

|                           |                    |
|---------------------------|--------------------|
|                           | 2005               |
| Cash                      | \$346 598          |
| Short-term investments    | 1 423 443          |
| Cash and cash equivalents | <u>\$1 770 041</u> |

**Interest paid**

Interest paid by the Bureau during the fiscal year totals \$1 477.

**Operations related to investment activities not affecting cash flows**

Accounts payable and accrued expenses include \$32 931 related to the acquisition of fixed assets.

**Operations related to financing activities not affecting cash flows**

Fixed assets of \$358 816 were acquired through a borrowing from the Société immobilière du Québec.

**6. FUTURE FRINGE BENEFITS****Pension plans**

Bureau members participate in the Government and Public Service Employees Retirement Plan (RREGOP) or the Management Personnel Retirement Plan (RRPE). These interenterprise, defined-benefit plans offer benefits on retirement and death.

Bureau contributions posted to results totalled \$28 704. The Bureau's obligations towards these government plans is limited to its employer contributions.

**BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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

Following staff transfers from the Autorité des marchés financiers and Secrétariat du Conseil du trésor, a provision of \$323 789 was posted to liabilities. The Bureau received equivalent compensation from the Autorité and Secrétariat of \$254 745 and \$69 044 respectively.

|                               | Sick<br>leave    | Vacation<br>time | Total            |
|-------------------------------|------------------|------------------|------------------|
| Expenses for the fiscal year  | \$286 627        | \$212 315        | \$498 942        |
| Benefits paid during the year | (9 599)          | (54 132)         | (63 731)         |
| Closing balance               | <u>\$277 028</u> | <u>\$158 183</u> | <u>\$435 211</u> |

**7. LONG-TERM DEBT**

The long-term debt consists in funding from the Société Immobilière du Québec for a portion of the Bureau's fit up costs.

|                                                                                                                       | 2005             |
|-----------------------------------------------------------------------------------------------------------------------|------------------|
| Borrowing, 5%, repayable in monthly instalments of \$4 376<br>including principal and interest, maturing May 31, 2013 | \$351 540        |
| Less: capital payments maturing within one year                                                                       | <u>(35 755)</u>  |
|                                                                                                                       | <u>\$315 785</u> |

The amounts of capital payments to make over the next five fiscal years are as follows:

|      |          |
|------|----------|
| 2006 | \$35 755 |
| 2007 | 37 584   |
| 2008 | 39 507   |
| 2009 | 41 528   |
| 2010 | 43 652   |

**8. CONTINGENCY RESERVE**

The Bureau resolved to create a \$500 000 contingency reserve in case of an unexpected change in expenses.

**9. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments other than short-term investments is equivalent to their book value, given that they mature in the near future.

The fair value of the long-term debt is equivalent to the book value, given that the agreement was signed at year-end.

**10. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Bureau transacts with 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. 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 FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 11. COMMITMENT

The Bureau is committed under a long-term agreement ending March 31, 2008 for its administrative offices.

The fiscal year's expenses for offices currently occupied was \$43 236.

Minimum future payments are as follows:

|      |                  |
|------|------------------|
| 2006 | \$251 064        |
| 2007 | 259 416          |
| 2008 | <u>267 768</u>   |
|      | <u>\$778 248</u> |

### 12. BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES FUND

#### Changes in Fund balance

For the fourteen-month period ended March 31, 2005

|                                              |                           |
|----------------------------------------------|---------------------------|
|                                              | <u>2005</u>               |
| <b>Increase</b>                              |                           |
| Autorité des marchés financiers contribution | \$3 496 676               |
| Fees and related costs                       | 1 202                     |
| Other                                        | 29 317                    |
| Transfers for sick leave and vacation time   | <u>323 789</u>            |
|                                              | <u>3 850 984</u>          |
| <b>Decrease</b>                              |                           |
| Transfers linked to:                         |                           |
| Operating activities                         | 1 618 480                 |
| Fixed asset activities                       | 379 938                   |
| Repayment of the long-term debt              | <u>7 276</u>              |
|                                              | <u>2 005 694</u>          |
| <b>Closing balance</b>                       | <u><u>\$1 845 290</u></u> |
| <b>The balance is represented by:</b>        |                           |
| Cash on hand                                 | \$346 598                 |
| Accounts receivable                          | 69 211                    |
| Accrued interest                             | 6 038                     |
| Short-term investments                       | <u>1 423 443</u>          |
|                                              | <u><u>\$1 845 290</u></u> |

Every year, the Government determines by order-in-council, the amount and terms and condition of payment of amounts the Autorité des marchés financiers must pay to the Bureau Fund.

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

**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 (Bureau) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Bureau 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 Bureau's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Guy Lemoine  
President

Jacynthe Pichette  
Director General of Administration  
and Services to the Industry

Montréal, June 17, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Bureau de décision et de révision en valeurs mobilières (Bureau) as at March 31, 2005 and the statements of revenue and expenditure and cash flows for the fourteen-month period then ended. These financial statements are the responsibility of Bureau management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Bureau's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

For the Auditor General,  
Doris Paradis, FCA  
Assistant Auditor General

Québec, June 17, 2005

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

**COMBINED STATEMENT OF INCOME AND CHANGES IN NET ASSETS**  
for the year ended December 31, 2004  
(in millions of dollars)

|                                                                                                                | <u>2004</u>           | <u>2003</u>          |
|----------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Investment income (Note 5a)                                                                                    | 3 850                 | 3 662                |
| Less:                                                                                                          |                       |                      |
| Operating expenses (Note 6)                                                                                    | <u>212</u>            | <u>205</u>           |
| Net investment income                                                                                          | 3 638                 | 3 457                |
| Gains (losses) on sale of investments (Note 5c)                                                                | <u>4 169</u>          | <u>2 324</u>         |
| Total realized income                                                                                          | 7 807                 | 5 781                |
| Unrealized increase (decrease) in the value of investments<br>and liabilities related to investments (Note 5d) | <u>3 011</u>          | <u>5 743</u>         |
| Total investment operations                                                                                    | 10 818                | 11 524               |
| Excess depositors' deposits over withdrawals                                                                   | <u>2 217</u>          | <u>192</u>           |
| <b>INCREASE IN COMBINED NET ASSETS</b>                                                                         | 13 035                | 11 716               |
| <b>COMBINED NET ASSETS, BEGINNING OF YEAR</b>                                                                  | <u>89 398</u>         | <u>77 682</u>        |
| <b>COMBINED NET ASSETS, END OF YEAR</b>                                                                        | <u><u>102 433</u></u> | <u><u>89 398</u></u> |

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

**CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC****COMBINED STATEMENT OF NET ASSETS**

as at December 31, 2004

(in millions of dollars)

|                                              | <u>2004</u>           | <u>2003</u>          |
|----------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                |                       |                      |
| Investments at fair value (Note 3a)          | 144 317               | 115 098              |
| Advances to depositors                       | 884                   | 987                  |
| Investment income, accrued and receivable    | 873                   | 802                  |
| Transactions being settled                   | 338                   | 110                  |
| Other assets                                 | <u>788</u>            | <u>716</u>           |
|                                              | <u>147 200</u>        | <u>117 713</u>       |
| <b>LIABILITIES</b>                           |                       |                      |
| Liabilities related to investments (Note 3b) | 42 069                | 24 866               |
| Transactions being settled                   | 1 047                 | 1 604                |
| Other liabilities                            | 1 033                 | 930                  |
| Non-controlling interests (Note 3c)          | <u>618</u>            | <u>915</u>           |
|                                              | <u>44 767</u>         | <u>28 315</u>        |
| <b>DEPOSITORS' HOLDINGS (Note 4)</b>         | <u><u>102 433</u></u> | <u><u>89 398</u></u> |

**DERIVATIVE FINANCIAL INSTRUMENTS (Note 7)****COMMITMENTS AND CONTINGENCIES (Note 9)**

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

For the Board of Directors,  
 Henri-Paul Rousseau  
 Jean-Claude Bachand



## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

### COMBINED FUNDS

#### NOTES TO FINANCIAL STATEMENTS

as at December 31, 2004

(in millions of dollars)

### 1. CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec, is a legal person within the meaning of the Civil Code, created by a special act (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's depositor is the Fonds du régime des rentes du Québec administered by the Régie des rentes du Québec. The General Fund is comprised of diversified investments, and represents a pooled fund for demand, term, and participation deposits.

#### INDIVIDUAL FUNDS

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

##### Fund 301

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

##### Fund 302

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

##### Fund 303

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

##### Fund 305

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

##### Fund 306

For the Régime complémentaire de rentes des techniciens ambulanciers oeuvrant au Québec;

##### Fund 307

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

##### Fund 311

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

##### Fund 312

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

##### Fund 313

For the Supplemental Pension Plan for employees of the Québec construction industry - supplementary 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, 2004  
(in millions of dollars)

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**1. CONSTITUTION AND OPERATIONS (cont'd)****INDIVIDUAL FUNDS (cont'd)****Fund 314**

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

**Fund 315**

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

**Fund 316**

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

**Fund 317**

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

**Fund 318**

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

**Fund 326**

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

**Funds 327**

For the Fédération des producteurs de bovins du Québec;

**Fund 328**

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

**Fund 329**

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

**Fund 330**

For the 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**

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

**Fund 333**

For the Fonds des cautionnements des agents de voyages – cautionnements collectifs: détaillants 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, 2004

(in millions of dollars)

### 1. CONSTITUTION AND OPERATIONS (cont'd)

#### INDIVIDUAL FUNDS (cont'd)

##### Fund 341

For the Fonds affecté à une fin particulière en vertu de la loi sur les valeurs mobilières administered by the Autorité des marchés financiers;

##### Fund 342

For the Régime de retraite de l'Université du Québec.

#### SPECIALIZED PORTFOLIOS

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

- |                                                            |                                            |
|------------------------------------------------------------|--------------------------------------------|
| - Bonds                                                    | - Foreign Equity - hedged                  |
| - Quebec International                                     | - Foreign Equity - unhedged                |
| - Real Return Bonds                                        | Emerging Markets Equity                    |
| (created January 1, 2004)                                  | - Mortgages (consolidated statements)      |
| - Commodity Financial Instruments                          | - Real Estate (consolidated statements)    |
| (created August 1, 2004)                                   | - Short-Term Investments                   |
| - Canadian Equity                                          | - Asset Allocation and Currencies          |
| - Hedge Fund (previously the Hedge Fund Partnership Units) | - Private Equity (consolidated statements) |
| (consolidated statements)                                  | - Investments and Infrastructures          |
| - U.S. Equity – hedged                                     | (consolidated statements)                  |
| - U.S. Equity - unhedged                                   |                                            |

### 2. ACCOUNTING POLICIES

The combined financial statements of the Caisse have been prepared by management, in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgement and estimates.

#### 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 knowledgeable, willing parties who are under no compulsion to act, established at year-end.

##### *Fixed-income securities*

Fixed-income securities comprise short-term investments, bonds and mortgages. These securities are recorded as at the commitment date, except mortgages, which are recorded as at the date of agreement.

**CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(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 is determined by means of valuation methods used in capital markets, such as the annualization of future cash flows at the current interest rate and the closing prices of the major stock exchanges as well as those provided by recognized financial institutions. In addition, certain valuations are made according to commonly used valuation methods or on the basis of similar arm's-length transactions.

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.

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 corresponds to the acquisition cost and the costs inherent to the acquisition of investments, and is restated in order to take into account amortization of the premium or the discount.

*Variable-income securities*

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Equities and convertible securities are recorded as at the commitment date whereas real estate holdings are recorded as at the date of agreement.

i) Valuation method

The fair value of equities traded on a stock exchange is determined from the closing prices on the major stock exchanges as well as those provided by recognized financial institutions. For equities not traded on a stock exchange and real estate holdings, valuations are made by independent valuers, while others are made according to commonly used valuation methods or on the basis of similar arm's-length transactions. The valuations of equities and convertible securities that are not publicly traded are reviewed annually by an independent valuation committee.

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 corresponds to the acquisition cost and the costs inherent to the acquisition of investments.

*Derivative financial instruments*

Pursuant to its investment operations management, the Caisse conducts transactions involving various derivative financial instruments in order 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, while 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 from closing prices on the major stock exchanges as well as those provided by recognized financial institutions. In the case of unlisted instruments, certain valuations are made on the basis of similar arm's-length transactions, or according to recognized, commonly used models.

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**2. ACCOUNTING POLICIES (cont'd)****b) Investments and joint operations (cont'd)***Derivative financial instruments (cont'd)***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 as a function of the underlying investments. As of December 31, 2001, the balance of deferred gains and losses on derivative financial instruments used to hedge foreign exchange risks is recorded in gains and losses on the sale of investments based on disposal of foreign investments.

*Securities acquired under reverse repurchase agreements*

The Caisse conducts security borrowing operations involving short-term investments and bonds in order 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 in order 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 in order to cover such transactions. Interest related to commitments involving short selling of short-term investments and bonds is recorded under Investment income – Fixed-income securities, while 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 and losses on the sale of investments – Fixed-income securities, while those related to short selling of equities are recorded in Gains and losses on the sale of investments – Variable-income securities.

**c) Administered property and property under management**

Some subsidiaries of the Caisse 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. Some subsidiaries of the Caisse receive fees in return for the portfolio management services and administrative services provided, which include 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 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 prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at 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-end.

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

## 2. ACCOUNTING POLICIES (cont'd)

## e) Loan securitization

The Caisse periodically securitizes loans by selling loans to a collateralized security entity, which then issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have abandoned 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 No. 12. At time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded in Gains (losses) on sale of investments – Mortgages.

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

## f) Operating expenses

Operating expenses cover all expenses related to investment operations, including expenses paid to external financial institutions, and are presented under a specific item, with the exception of those related to real-estate management and operation expenses, which are deducted from the real-estate holding investment income.

## 3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

## a) Investments

|                                          | 2004          |               | 2003          |               |
|------------------------------------------|---------------|---------------|---------------|---------------|
|                                          | Fair value    | Cost          | Fair value    | Cost          |
| <b>Fixed-income securities</b>           |               |               |               |               |
| Short-term investments                   |               |               |               |               |
| Canadian                                 | 15 358        | 15 362        | 10 429        | 10 448        |
| Foreign                                  | 1 709         | 1 777         | 912           | 929           |
|                                          | <u>17 067</u> | <u>17 139</u> | <u>11 341</u> | <u>11 377</u> |
| Bonds                                    |               |               |               |               |
| Issued or guaranteed by:                 |               |               |               |               |
| Canadian government                      | 21 523        | 21 006        | 14 137        | 13 993        |
| Province of Quebec                       | 10 826        | 9 710         | 12 835        | 11 714        |
| Other Canadian provinces                 | 1 452         | 1 418         | 253           | 244           |
| Municipalities and other Canadian bodies | 1 129         | 1 052         | 1 201         | 1 085         |
| Canadian government corporations         | 7 818         | 6 866         | 5 576         | 4 739         |
| U.S. government                          | 3 675         | 3 839         | 1 518         | 1 570         |
| Other foreign government                 | 1 971         | 1 950         | 931           | 935           |
| Mortgage securities                      | 793           | 801           | 532           | 529           |
| Canadian corporations                    | 7 072         | 6 908         | 5 138         | 5 092         |
| Foreign corporations                     | 2 215         | 2 227         | 852           | 1 400         |
| Canadian inflation-indexed securities    | 1 090         | 1 024         | 179           | 174           |
| Foreign inflation-indexed securities     | 865           | 912           |               |               |
| Hedge funds                              | 476           | 487           | 14            | 14            |
|                                          | <u>60 905</u> | <u>58 200</u> | <u>43 166</u> | <u>41 489</u> |
| Mortgages                                |               |               |               |               |
| Canadian                                 | 3 998         | 3 832         | 3 248         | 3 166         |
| Foreign                                  | 554           | 584           | 376           | 380           |
|                                          | <u>4 552</u>  | <u>4 416</u>  | <u>3 624</u>  | <u>3 546</u>  |
| <b>Total fixed-income securities</b>     |               |               |               |               |
| (amounts carried forward)                | <u>82 524</u> | <u>79 755</u> | <u>58 131</u> | <u>56 412</u> |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

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

|                                                                   | 2004       |         | 2003       |         |
|-------------------------------------------------------------------|------------|---------|------------|---------|
|                                                                   | Fair value | Cost    | Fair value | Cost    |
| <b>Total fixed-income securities</b><br>(amounts brought forward) | 82 524     | 79 755  | 58 131     | 56 412  |
| <b>Variable-income securities</b>                                 |            |         |            |         |
| Equities and convertible securities                               |            |         |            |         |
| Canadian                                                          | 15 427     | 14 935  | 15 453     | 15 542  |
| U.S.                                                              | 14 030     | 14 986  | 10 462     | 12 026  |
| Foreign and emerging markets                                      | 13 130     | 12 875  | 11 842     | 12 027  |
| Hedge funds                                                       | 2 335      | 2 463   | 864        | 869     |
| Other                                                             | 119        | 119     | 1 729      | 1 602   |
|                                                                   | 45 041     | 45 378  | 40 350     | 42 066  |
| Real estate holdings                                              |            |         |            |         |
| Canadian                                                          | 8 543      | 7 827   | 8 869      | 8 873   |
| Foreign                                                           | 3 205      | 3 609   | 5 155      | 5 270   |
|                                                                   | 11 748     | 11 436  | 14 024     | 14 143  |
| <b>Total variable income securities</b>                           | 56 789     | 56 814  | 54 374     | 56 209  |
| <b>Amounts to be received in respect of investments</b>           |            |         |            |         |
| Securities acquired under reverse repurchase agreements           |            |         |            |         |
| Canadian                                                          | 734        | 734     | 413        | 413     |
| Foreign                                                           | 2 613      | 2 664   | 806        | 816     |
| Amount pertaining to derivative products                          |            |         |            |         |
| Canadian                                                          | 225        | 8       | 191        | 10      |
| Foreign                                                           | 1 432      | 309     | 1 183      | 356     |
|                                                                   | 5 004      | 3 715   | 2 593      | 1 595   |
| <b>Total investments</b>                                          | 144 317    | 140 284 | 115 098    | 114 216 |

**b) Liabilities related to investments**

|                                             | 2004       |        | 2003       |        |
|---------------------------------------------|------------|--------|------------|--------|
|                                             | Fair value | Cost   | Fair value | Cost   |
| Securities sold under repurchase agreements |            |        |            |        |
| Canadian                                    | 17 793     | 17 793 | 9 567      | 9 566  |
| Foreign                                     | 5 496      | 5 590  | 2 258      | 2 290  |
| Commercial paper payable                    | 2 167      | 2 167  | 2 376      | 2 376  |
| Medium-term notes                           | 1 338      | 1 309  | 752        | 750    |
| Amounts carried forward                     | 26 794     | 26 859 | 14 953     | 14 982 |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)****b) Liabilities related to investments (cont'd)**

|                                                | 2004          |               | 2003          |               |
|------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                | Fair value    | Cost          | Fair value    | Cost          |
| Amounts brought forward                        | 26 794        | 26 859        | 14 953        | 14 982        |
| Loans payables                                 |               |               |               |               |
| Canadian                                       | 162           | 169           | 420           | 419           |
| Foreign                                        | 169           | 169           | 34            | 34            |
| Canadian commercial mortgage-backed securities | 598           | 543           | 628           | 599           |
| Short-selling of securities                    |               |               |               |               |
| Canadian                                       | 7 333         | 6 963         | 2 869         | 2 647         |
| Foreign                                        | 2 688         | 2 646         | 357           | 331           |
| Mortgage loans payable                         |               |               |               |               |
| Canadian                                       | 1 683         | 1 532         | 2 026         | 1 893         |
| Foreign                                        | 1 500         | 1 482         | 2 569         | 2 546         |
| Amount pertaining to derivative instruments    |               |               |               |               |
| Canadian                                       | 237           | 89            | 103           | 24            |
| Foreign                                        | 905           | 277           | 907           | 319           |
|                                                | <u>42 069</u> | <u>40 729</u> | <u>24 866</u> | <u>23 794</u> |

**c) Non-controlling interest**

|          | 2004       |            | 2003       |            |
|----------|------------|------------|------------|------------|
|          | Fair value | Cost       | Fair value | Cost       |
| Canadian | 481        | 462        | 400        | 434        |
| Foreign  | 137        | 157        | 515        | 340        |
|          | <u>618</u> | <u>619</u> | <u>915</u> | <u>774</u> |

**d) Summary geographic breakdown at market value of investments and liabilities related to investments**

|                                                 | 2004          |               |                | 2003          |               |                |
|-------------------------------------------------|---------------|---------------|----------------|---------------|---------------|----------------|
|                                                 | Canadian      | Foreign       | Total          | Canadian      | Foreign       | Total          |
| Investments                                     |               |               |                |               |               |                |
| Fixed-income securities                         | 70 217        | 12 307        | 82 524         | 52 751        | 5 380         | 58 131         |
| Equities and convertible securities             | 15 427        | 29 614        | 45 041         | 15 453        | 24 897        | 40 350         |
| Real estate holdings                            | 8 543         | 3 205         | 11 748         | 8 869         | 5 155         | 14 024         |
| Amount to be received in respect of investments | <u>959</u>    | <u>4 045</u>  | <u>5 004</u>   | <u>604</u>    | <u>1 989</u>  | <u>2 593</u>   |
|                                                 | <u>95 146</u> | <u>49 171</u> | <u>144 317</u> | <u>77 677</u> | <u>37 421</u> | <u>115 098</u> |
| Liabilities related to investments              | <u>31 311</u> | <u>10 758</u> | <u>42 069</u>  | <u>18 741</u> | <u>6 125</u>  | <u>24 866</u>  |
| Non-controlling interests                       | <u>481</u>    | <u>137</u>    | <u>618</u>     | <u>400</u>    | <u>515</u>    | <u>915</u>     |



## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)****e) Summary of maturities of investments and liabilities related to investments at par value**

|                                                             | 2004                 |                 |                      |               |                                    | 2003                  |                                    |
|-------------------------------------------------------------|----------------------|-----------------|----------------------|---------------|------------------------------------|-----------------------|------------------------------------|
|                                                             | Less than<br>2 years | 2 to<br>5 years | More than<br>5 years | Total         | Effect-<br>ive<br>interest<br>rate | Total<br>par<br>value | Effect-<br>ive<br>interest<br>rate |
| <b>Fixed-income securities</b>                              |                      |                 |                      |               |                                    |                       |                                    |
| Short-term investments                                      |                      |                 |                      |               |                                    |                       |                                    |
| Canadian                                                    | 15 233               | 851             | 92                   | 16 176        | 2.7 %                              | 10 494                | 3.0 %                              |
| Foreign                                                     | 600                  | 582             | 394                  | 1 576         | 4.4                                | 912                   | 4.2                                |
|                                                             | <u>15 833</u>        | <u>1 433</u>    | <u>486</u>           | <u>17 752</u> | 2.9 %                              | <u>11 406</u>         | 3.1 %                              |
| Bonds                                                       |                      |                 |                      |               |                                    |                       |                                    |
| Issued or guaranteed by:                                    |                      |                 |                      |               |                                    |                       |                                    |
| Canadian government                                         | 2 476                | 6 149           | 11 306               | 19 931        | 4.3 %                              | 13 445                | 4.1                                |
| Province of Québec                                          | 1 516                | 1 911           | 5 966                | 9 393         | 5.7                                | 11 371                | 6.3                                |
| Other Canadian provinces                                    | 146                  | 319             | 907                  | 1 372         | 4.7                                | 243                   | 5.5                                |
| Municipalities and other                                    |                      |                 |                      |               |                                    |                       |                                    |
| Canadian bodies                                             | 402                  | 487             | 138                  | 1 027         | 6.2                                | 1 046                 | 7.1                                |
| Canadian government                                         |                      |                 |                      |               |                                    |                       |                                    |
| corporations                                                | 422                  | 2 963           | 3 368                | 6 753         | 5.4                                | 4 700                 | 6.5                                |
| U.S. government                                             | 485                  | 490             | 2 894                | 3 869         | 4.3                                | 1 739                 | 4.6                                |
| Other foreign governments                                   | 327                  | 480             | 1 107                | 1 914         | 2.5                                | 1 004                 | 3.5                                |
| Mortgage securities                                         | 23                   | 13              | 1 020                | 1 056         | 12.1                               | 529                   | 8.6                                |
| Canadian corporations                                       | 2 354                | 2 045           | 2 441                | 6 840         | 4.7                                | 4 851                 | 5.6                                |
| Foreign corporations                                        | 310                  | 188             | 1 825                | 2 323         | 4.9                                | 1 491                 | 4.9                                |
| Canadian inflation-indexed                                  |                      |                 |                      |               |                                    |                       |                                    |
| securities                                                  |                      |                 | 710                  | 710           | 2.4                                | 158                   | 2.9                                |
| Foreign inflation-indexed                                   |                      |                 |                      |               |                                    |                       |                                    |
| securities                                                  |                      | 201             | 535                  | 736           | 1.2                                |                       |                                    |
|                                                             | <u>8 461</u>         | <u>15 246</u>   | <u>32 217</u>        | <u>55 924</u> | 4.8 %                              | <u>40 577</u>         | 5.4                                |
| Mortgages                                                   |                      |                 |                      |               |                                    |                       |                                    |
| Canadian                                                    | 954                  | 1 153           | 1 725                | 3 832         | 6.6 %                              | 3 166                 | 7.0                                |
| Foreign                                                     | 396                  | 50              | 138                  | 584           | 8.0                                | 380                   | 8.6                                |
|                                                             | <u>1 350</u>         | <u>1 203</u>    | <u>1 863</u>         | <u>4 416</u>  | 6.8                                | <u>3 546</u>          | 7.2                                |
|                                                             | <u>25 644</u>        | <u>17 882</u>   | <u>34 566</u>        | <u>78 092</u> | 4.5 %                              | <u>55 529</u>         | 5.0 %                              |
| <b>Amounts to be received<br/>in respect of investments</b> |                      |                 |                      |               |                                    |                       |                                    |
| Securities acquired under                                   |                      |                 |                      |               |                                    |                       |                                    |
| reverse repurchase                                          |                      |                 |                      |               |                                    |                       |                                    |
| agreements                                                  |                      |                 |                      |               |                                    |                       |                                    |
| Canadian                                                    | 735                  |                 |                      | 735           | 2.4 %                              | 465                   | 2.8 %                              |
| Foreign                                                     | 2 640                |                 |                      | 2 640         | 1.6                                | 807                   | 0.9                                |
|                                                             | <u>3 375</u>         |                 |                      | <u>3 375</u>  | 1.8 %                              | <u>1 272</u>          | 1.6 %                              |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**3. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)****e) Summary of maturities of investments and liabilities related to investments at par value (cont'd)**

|                                                   | 2004                 |                 |                      |               | 2003                               |                       |
|---------------------------------------------------|----------------------|-----------------|----------------------|---------------|------------------------------------|-----------------------|
|                                                   | Less than<br>2 years | 2 to<br>5 years | More than<br>5 years | Total         | Effect-<br>ive<br>interest<br>rate | Total<br>par<br>value |
| <b>Liabilities related to<br/>investments</b>     |                      |                 |                      |               |                                    |                       |
| Securities sold under<br>repurchase agreements    | 23 335               |                 |                      | 23 335        | 2.4 %                              | 11 552                |
| Commercial paper payable                          | 2 176                |                 |                      | 2 176         | 2.6                                | 2 388                 |
| Medium-term notes                                 |                      | 1 312           |                      | 1 312         | 4.2                                | 750                   |
| Loans payable                                     | 330                  |                 |                      | 330           | 3.6                                | 466                   |
| Canadian commercial<br>mortgage-backed securities | 17                   | 53              | 480                  | 550           | 6.9                                | 599                   |
| Short selling of securities                       | 1 237                | 2 043           | 3 935                | 7 215         | 4.3                                | 2 020                 |
| Mortgage loans payable                            | 723                  | 1 093           | 1 198                | 3 014         | 6.9                                | 4 511                 |
|                                                   | <u>27 818</u>        | <u>4 501</u>    | <u>5 613</u>         | <u>37 932</u> | 3.3 %                              | <u>22 286</u>         |
|                                                   |                      |                 |                      |               |                                    | 3.7 %                 |

The balance of losses on derivative financial foreign exchange risk hedging instruments reported in the cost of investments as of December 31, 2001, was \$127 million as at December 31, 2004 (\$263 million in 2003).

The fair value of investments in short-term investments, bonds, equities and convertible securities, includes investments in private companies, in the amount of \$1 125 million, \$1 316 million and \$5 121 million respectively as at December 31, 2004 (\$1 061 million in short-term investments, \$478 million in bonds, and \$5 710 million in equities and convertibles securities in 2003), for which market prices are not available.

In addition, the \$4 169 million (\$2 324 million in 2003) of gains on the sale of investments presented in the combined statement of changes in net assets includes \$103 million in foreign exchange gains (\$1 024 million in 2003).

**4. DEPOSITORS' HOLDINGS**

Demand and term deposits bear interest, and constitute indebtedness on the part of the Caisse toward the depositors.

Participation deposits are expressed in units, and each unit gives its holder a proportionate share in the net equity and 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 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.

|                                                               | 2004       | 2003       |
|---------------------------------------------------------------|------------|------------|
| Caisse's indebtedness toward depositors                       |            |            |
| Demand deposits                                               | 41         | 36         |
| Term deposits                                                 |            | 18         |
| Interest on demand and term deposits                          | (1)        | (1)        |
| Net income to be paid out to participation<br>deposit holders | <u>471</u> | <u>184</u> |
| Amounts carried forward                                       | <u>511</u> | <u>237</u> |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**4. DEPOSITORS' HOLDINGS (cont'd)**

|                                                                                                             | 2004    | 2003    |
|-------------------------------------------------------------------------------------------------------------|---------|---------|
| Amounts brought forward                                                                                     | 511     | 237     |
| Participation deposit holders' holdings                                                                     |         |         |
| Participation deposits                                                                                      |         |         |
| Balance, beginning of year                                                                                  | 87 206  | 84 702  |
| Units issued                                                                                                | 6 897   | 3 983   |
| Units cancelled                                                                                             | (786)   | (1 479) |
| Balance, end of year                                                                                        | 93 317  | 87 206  |
| Amount not allocated with respect to real estate holdings *                                                 | 33      | 47      |
| Unrealized increase (decrease) in value allocated following interfund transactions                          | 182     | 73      |
| Amount not allocated following gains and losses on the sale of investments in the specialized portfolios ** | 5 696   | 2 166   |
| Unrealized increase (decrease) in value of investments and other related assets and liabilities             | 2 694   | (331)   |
|                                                                                                             | 101 922 | 89 161  |
| Depositors' holdings                                                                                        | 102 433 | 89 398  |

\* Represents the restated amount of accumulated amortization of real estate properties resulting from the recording of investments at fair value. This amount will be allocated upon the sale of the properties.

\*\* Represents the gains and losses on the sale of investments in the specialized portfolios that are not distributed at year-end. This amount will be allocated upon the sale of the participation units in portfolios.

**5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS****a) Investment income**

|                                     | 2004  | 2003  |
|-------------------------------------|-------|-------|
| Fixed-income securities             |       |       |
| Short-term investments              | 245   | 249   |
| Bonds                               | 1 839 | 1 629 |
| Mortgages                           | 269   | 267   |
|                                     | 2 353 | 2 145 |
| Variable-income securities          |       |       |
| Equities and convertible securities | 999   | 869   |
| Real estate holdings (Note 5b)      | 531   | 678   |
|                                     | 1 530 | 1 547 |
| Other income                        | 22    | 33    |
| Non-controlling interests           | (55)  | (63)  |
|                                     | 3 850 | 3 662 |

**CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)****b) Net income from real estate holdings**

|                                                    | 2004  | 2003  |
|----------------------------------------------------|-------|-------|
| Income from real estate holdings                   | 1 844 | 2 163 |
| Less :                                             |       |       |
| Expenses related to real estate subsidiaries       |       |       |
| Operating expenses related to real estate holdings | 967   | 1 085 |
| Operation expenses                                 | 53    | 51    |
| Loan financial expenses                            | 308   | 356   |
|                                                    | 1 328 | 1 492 |
| Other income                                       | 15    | 7     |
|                                                    | 531   | 678   |

**c) Gains (losses) on sale of investments**

|                                     | 2004  | 2003  |
|-------------------------------------|-------|-------|
| Fixed-income securities             |       |       |
| Short-term investments              | (190) | (101) |
| Bonds                               | 295   | 740   |
| Mortgages                           | 2     | 97    |
|                                     | 107   | 736   |
| Variable-income securities          |       |       |
| Equities and convertible securities | 4 122 | 1 135 |
| Real estate holdings                | (76)  | 458   |
|                                     | 4 046 | 1 593 |
| Non-controlling interest            | 16    | (5)   |
|                                     | 4 169 | 2 324 |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**5. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN THE VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**
**d) Unrealized increase (decrease) in the value of investments and liabilities related to investments**

|                                                         | 2004  | 2003  |
|---------------------------------------------------------|-------|-------|
| Fixed-income securities                                 |       |       |
| Short-term investments                                  | (17)  | (108) |
| Bonds                                                   | 1 103 | (632) |
| Mortgages                                               | 59    | (93)  |
| Securities acquired under reverse repurchase agreements | (53)  | (25)  |
|                                                         | 1 092 | (858) |
| Variable-income securities                              |       |       |
| Equities and convertible securities                     | 1 543 | 6 171 |
| Real estate holdings                                    | 502   | (136) |
|                                                         | 2 045 | 6 035 |
| Total investments                                       | 3 137 | 5 177 |
| Less:                                                   |       |       |
| Liabilities related to investments                      |       |       |
| Securities acquired under reverse repurchase agreements | (63)  | (51)  |
| Medium-term note                                        | 27    | 2     |
| Loans payable                                           | (8)   | 13    |
| Commercial mortgage-backed securities                   | 26    | (9)   |
| Short selling securities                                | 164   | 312   |
| Mortgage loans payable                                  | 13    | (13)  |
| Derivative financial instruments                        | 109   | (872) |
| Non-controlling interests                               | (142) | 52    |
|                                                         | 126   | (566) |
|                                                         | 3 011 | 5 743 |

**6. OPERATING EXPENSES**

|                                                     | 2004 | 2003 |
|-----------------------------------------------------|------|------|
| Salaries and employee benefits                      | 106  | 101  |
| Professional services                               | 38   | 42   |
| Premises and equipment                              | 15   | 13   |
| Depreciation of fixed assets                        | 18   | 20   |
| External – management and safekeeping of securities | 21   | 16   |
| Other                                               | 14   | 13   |
|                                                     | 212  | 205  |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying security, and which do not require holding or delivery of the underlying good itself. The underlying good may be of a financial nature (interest rate, foreign currency, stock market security or index) or a commodity (precious metal, foodstuff, oil).

The notional amount of a derivative financial instrument represents the value of the theoretical capital to which a rate or a price applies in order to determine the exchange of future financial returns, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include those described below:

Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying good, the quantity and price of which are determined in the contract by 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.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as related derivative financial instruments. In order to manage the exchange risk, the Caisse uses instruments negotiated with banks; maturities generally range from one to twelve months in the case of 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.

Derivative instruments that are traded on exchanges or with banks are 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.

These transactions are negotiated with financial institutions whose credit rating is established by a recognized credit rating agency and operational limits are duly approved by management, which supports signing compensation agreements in order to limit credit risks.

**a) Summary of derivative financial instruments**

|                                              | 2004               |        |                           |            | 2003          |
|----------------------------------------------|--------------------|--------|---------------------------|------------|---------------|
|                                              | Notional<br>amount | Assets | Fair Value<br>Liabilities | Net amount | Net<br>amount |
| Foreign exchange risk management             |                    |        |                           |            |               |
| Foreign currency swaps                       | 432                |        | 81                        | (81)       | (103)         |
| Forward contracts                            | 23 044             | 694    | 221                       | 473        | 301           |
| Over-the-counter foreign<br>currency options |                    |        |                           |            |               |
| Purchases                                    | 155                | 16     |                           | 16         | 60            |
| Sales                                        | 157                |        | 2                         | (2)        | (47)          |
| Amounts carried forward                      | 23 788             | 710    | 304                       | 406        | 211           |

## CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

## COMBINED FUNDS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in millions of dollars)

**7. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)****a) Summary of derivative financial instruments (cont'd)**

|                                                    | 2004               |            |             |            | 2003          |
|----------------------------------------------------|--------------------|------------|-------------|------------|---------------|
|                                                    | Notional<br>amount | Fair Value |             |            | Net<br>amount |
|                                                    |                    | Assets     | Liabilities | Net amount |               |
| Amounts brought forward                            | 23 788             | 710        | 304         | 406        | 211           |
| Interest rate and market risk<br>management        |                    |            |             |            |               |
| Interest rate and foreign<br>currency swaps        | 53 791             | 311        | 480         | (169)      | (184)         |
| Equity swaps                                       | 6 973              | 154        | 73          | 81         | 167           |
| Forward contracts                                  | 19 287             | 224        | 116         | 108        | 43            |
| Futures contracts                                  | 73 023             |            |             |            |               |
| Exchange-traded options                            |                    |            |             |            |               |
| Purchases                                          | 7 039              | 21         |             | 21         | 5             |
| Sales                                              | 7 975              |            | 15          | (15)       | (5)           |
| Over-the-counter options                           |                    |            |             |            |               |
| Purchases                                          | 30 018             | 237        |             | 237        | 357           |
| Sales                                              | 22 911             |            | 154         | (154)      | (230)         |
|                                                    | 221 017            | 947        | 838         | 109        | 153           |
| Total derivative financial<br>instrument contracts | 244 805            | 1 657      | 1 142       | 515        | 364           |

**b) Summary of derivative financial instrument maturities**

|                                              | 2004                       |                 |                      |        | 2003               |
|----------------------------------------------|----------------------------|-----------------|----------------------|--------|--------------------|
|                                              | Notional amount – Maturity |                 |                      |        |                    |
|                                              | Less than<br>2 years       | 2 to<br>5 years | More than<br>5 years | Total  | Notional<br>amount |
| Foreign exchange risk management             |                            |                 |                      |        |                    |
| Foreign currency swaps                       |                            | 174             | 258                  | 432    | 465                |
| Forward contracts                            | 23 044                     |                 |                      | 23 044 | 14 681             |
| Over-the-counter foreign<br>currency options |                            |                 |                      |        |                    |
| Purchases                                    | 155                        |                 |                      | 155    | 1 026              |
| Sales                                        | 157                        |                 |                      | 157    | 420                |
| Amounts carried forward                      | 23 356                     | 174             | 258                  | 23 788 | 16 592             |

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

as at December 31, 2004

(in millions of dollars)

**7. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)****b) Summary of derivative financial instrument maturities (cont'd)**

|                                                 | 2004                       |                 |                      |         | 2003            |
|-------------------------------------------------|----------------------------|-----------------|----------------------|---------|-----------------|
|                                                 | Notional amount – Maturity |                 |                      |         | Notional amount |
|                                                 | Less than<br>2 years       | 2 to<br>5 years | More than<br>5 years | Total   |                 |
| Amounts brought forward                         | 23 356                     | 174             | 258                  | 23 788  | 16 592          |
| Interest rate and market risk management        |                            |                 |                      |         |                 |
| Interest rate and foreign currency swaps        | 12 260                     | 15 855          | 25 676               | 53 791  | 44 006          |
| Equity swaps                                    | 6 131                      | 777             | 65                   | 6 973   | 5 462           |
| Forward contracts                               | 18 937                     | 150             | 200                  | 19 287  | 18 170          |
| Futures contracts                               | 58 756                     | 13 272          | 995                  | 73 023  | 12 331          |
| Exchange-traded options                         |                            |                 |                      |         |                 |
| Purchases                                       | 7 018                      | 21              |                      | 7 039   | 2 746           |
| Sales                                           | 7 957                      | 18              |                      | 7 975   | 5 373           |
| Over-the-counter options                        |                            |                 |                      |         |                 |
| Purchases                                       | 26 189                     | 2 682           | 1 147                | 30 018  | 50 540          |
| Sales                                           | 18 728                     | 3 714           | 469                  | 22 911  | 36 563          |
|                                                 | 155 976                    | 36 489          | 28 552               | 221 017 | 175 191         |
| Total derivative financial instrument contracts | 179 332                    | 36 663          | 28 810               | 244 805 | 191 783         |

**8. SECURITIZATION**

During the year, the Caisse securitized no commercial mortgage loans (\$1 392.8 million in 2003), and issued no commercial mortgage-backed securities (1 512.2 million in 2003).

Commercial mortgage-backed securities acquired by the Caisse are recorded in the combined statement of net assets under Mortgages. As at December 31, 2004, these securities amounted to \$251.0 million (\$261.0 million in 2003). Securitization allowed companies under common control to generate \$1.5 million in management fees in 2004 (\$0.8 million in 2003). No losses are expected due to the nature and quality of the loans.

**9. 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 which will be settled over 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. In general, the Caisse has no recourse with third parties regarding these collaterals.



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

as at December 31, 2004

(in millions of dollars)

**9. COMMITMENTS AND CONTINGENCIES (cont'd)**

|                                 | 2004         | 2003         |
|---------------------------------|--------------|--------------|
| Commitments to buy investments  | 7 262        | 5 025        |
| Collaterals and loan guarantees | 448          | 403          |
|                                 | <u>7 710</u> | <u>5 428</u> |

**10. COLLATERALS**

In the normal course of business, the Caisse conducts transactions involving the lending and borrowing of securities in exchange for collaterals or assets, with various counterparties, with which clearing agreements have been signed in order to limit credit risk. In its securities-lending operations, the Caisse received assets as collateral. As at December 31, the Caisse pledged and received as collateral securities and other assets for amounts of \$25 210 million (\$12 315 million in 2003) and \$6 709 million (\$3 468 million in 2003) respectively. The amount of the assets pledged as collateral consists of assets with a value of \$631 million (\$513 million in 2003), which were pledged with depositors to participate in clearing and payment systems.

**11. COMPARATIVE FIGURES**

During the year, the presentation of certain items in the 2003 report was reviewed in order to better reflect the nature of some financial instruments. This change resulted in an increase (decrease) in the following items of the financial statements:

|                                    | 2003       |         |
|------------------------------------|------------|---------|
|                                    | Fair value | Cost    |
| <b>Assets</b>                      |            |         |
| Investments                        | (987)      | (758)   |
| Other assets                       | (138)      | (138)   |
| <b>Liabilities</b>                 |            |         |
| Liabilities related to investments | (1 259)    | (1 030) |
| Other liabilities                  | 134        | 134     |

**CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC****MANAGEMENT'S RESPONSIBILITY FOR COMBINED FINANCIAL REPORTING**

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The combined financial statements of the Caisse de dépôt et placement du Québec were prepared by management, which is responsible for the integrity and accuracy of such data. This responsibility includes selecting the appropriate accounting policies in accordance with generally accepted accounting principles in Canada. The combined financial statements may contain information based on the management's best estimates and judgment and reflecting their relative importance.

Management is also responsible for the information and declarations disclosed in other sections of the Operations report, and ensures that the financial information presented elsewhere in this annual report is consistent with that shown in the financial statements.

Management maintains internal accounting control systems which are designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded in an appropriate and timely manner, that they are duly authorized and allow for the preparation of reliable financial statements. The internal audit team reviews the internal controls on a regular basis to ensure that they are adequate and applied consistently by the Caisse.

The Caisse is aware of its responsibility to manage its operations in accordance with the rules and regulations that govern the institution.

The Board of Directors supervises the manner in which management assumes its responsibility regarding financial information, and it has approved the combined financial statements. The Board of Directors is assisted by the Audit Committee, of which all members are outside directors. The Audit Committee meets with management and the auditor, examines the financial statements and recommends their approval by the Board of Directors.

The combined financial statements of the Caisse are audited by the Auditor General of Québec, who conducted his audit in accordance with generally accepted auditing standards in Canada. The auditor's report covers the nature and scope of the audit and expresses the auditor's opinion on the financial statements. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

Henri-Paul Rousseau  
Chairman and Chief Executive Officer

Ghislain Parent  
Executive Vice-President,  
Finance, Treasury and Strategic Initiatives

Montréal, February 10, 2005

**CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC****AUDITOR'S REPORT**

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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, 2004, along with the combined statement of income and the combined statement of 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 auditing standards generally accepted 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, 2004, as well as the results of their operations and the changes in their net assets for the year then ended in accordance with accounting principles generally accepted 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 comparison with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec City, February 10, 2005

**CAPITAL FINANCIÈRE AGRICOLE INC.**  
(R.S.Q., c. C-38)

REVENUE AND EXPENDITURE AND DEFICIT  
for the year ended March 31, 2005

|                                                                    | 2005                      | 2004                    |
|--------------------------------------------------------------------|---------------------------|-------------------------|
| <b>REVENUE</b>                                                     |                           |                         |
| Interest on bank deposits and short-term investments               | \$506 504                 | \$647 338               |
| Interest on debentures                                             | 384 484                   | 183 972                 |
| Fees                                                               | 43 500                    | 67 700                  |
| Royalties on debentures                                            | 23 886                    |                         |
|                                                                    | <u>958 374</u>            | <u>899 010</u>          |
| <b>EXPENDITURE</b>                                                 |                           |                         |
| Salaries and fringe benefits                                       | 587 203                   | 531 341                 |
| Transportation and communication services                          | 64 765                    | 62 590                  |
| Rent                                                               | 24 189                    | 23 912                  |
| Professional, administrative and other services                    | 132 654                   | 70 020                  |
| Supplies and furnishings                                           | 2 688                     | 4 019                   |
| Depreciation of fixed assets                                       | 2 056                     | 2 051                   |
| Loss of value on holding company investments                       | 156 181                   |                         |
| Provision for loss on investments                                  | 728 049                   |                         |
| Loss on write-off of investments                                   |                           | 1 029 118               |
|                                                                    | <u>1 697 785</u>          | <u>1 723 051</u>        |
| <b>INSUFFICIENCY OF REVENUE OVER EXPENDITURE<br/>BEFORE SHARES</b> | 739 411                   | 824 041                 |
| <b>SHARE IN THE LOSS OF SATELLITE CORPORATIONS</b>                 | <u>275 000</u>            |                         |
| <b>INSUFFICIENCY OF REVENUE OVER EXPENDITURE</b>                   | 1 014 411                 | 824 041                 |
| <b>OPENING DEFICIT</b>                                             | <u>824 041</u>            |                         |
| <b>CLOSING DEFICIT</b>                                             | <u><u>\$1 838 452</u></u> | <u><u>\$824 041</u></u> |

The notes are an integral part of these financial statements.

**CAPITAL FINANCIÈRE AGRICOLE INC.****BALANCE SHEET**  
as at March 31, 2005

|                                                | <u>2005</u>                | <u>2004</u>                |
|------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                  |                            |                            |
| <b>Current assets</b>                          |                            |                            |
| Cash on hand                                   | \$181 086                  | \$109 768                  |
| Short-term investments (Note 3)                | 17 489 782                 | 19 858 130                 |
| Accounts receivable and accrued interest       | 279 739                    | 34 962                     |
| Instalments receivable on investments (Note 4) | 235 409                    | 75 809                     |
|                                                | <u>18 186 016</u>          | <u>20 078 669</u>          |
| <b>Investments</b> (Note 4)                    | 4 200 488                  | 3 272 225                  |
| <b>Fixed assets</b> (Note 5)                   | <u>1 885</u>               | <u>3 941</u>               |
|                                                | <u><u>\$22 388 389</u></u> | <u><u>\$23 354 835</u></u> |
| <b>LIABILITIES</b>                             |                            |                            |
| <b>Current liabilities</b>                     |                            |                            |
| Accounts payable and accruals                  | \$32 485                   | \$34 662                   |
| Owed to La Financière agricole du Québec       | 67 727                     | 39 149                     |
| Provision for vacation time                    | 72 749                     | 56 383                     |
|                                                | <u>172 961</u>             | <u>130 194</u>             |
| Provision for sick leave (Note 6)              | <u>53 880</u>              | <u>48 682</u>              |
|                                                | <u>226 841</u>             | <u>178 876</u>             |
| <b>SHAREHOLDERS EQUITY</b>                     |                            |                            |
| Capital stock (Note 8)                         | 24 000 000                 | 24 000 000                 |
| Deficit                                        | <u>(1 838 452)</u>         | <u>(824 041)</u>           |
|                                                | <u>22 161 548</u>          | <u>23 175 959</u>          |
|                                                | <u><u>\$22 388 389</u></u> | <u><u>\$23 354 835</u></u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 Jacques Brind'Amour, President  
 Jacques Desmeules, Director

**CAPITAL FINANCIÈRE AGRICOLE INC.****CASH FLOW**

for the year ended March 31, 2005

|                                                    | <u>2005</u>         | <u>2004</u>         |
|----------------------------------------------------|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                        |                     |                     |
| Insufficiency of revenue over expenditure          | \$(1 014 411)       | \$(824 041)         |
| Items not affecting cash flow:                     |                     |                     |
| Capitalized interest on investments                | (272 765)           | (156 979)           |
| Depreciation of fixed assets                       | 2 056               | 2 051               |
| Loss of value in portfolio corporation investments | 156 181             |                     |
| Provision for loss on investments                  | 728 049             |                     |
| Loss on write-off of investments                   |                     | 1 029 118           |
| Share in the loss of satellite corporations        | <u>275 000</u>      |                     |
|                                                    | .....(125 890)..... | .....50 149.....    |
| Change in non-cash items related to operations:    |                     |                     |
| Accounts receivable and accrued interest           | (244 777)           | 266 886             |
| Accounts payable and accruals                      | (2 177)             | (115 739)           |
| Owed to La Financière agricole du Québec           | 28 578              | 215 771             |
| Provision for vacation time                        | 16 366              | 19 567              |
| Provision for sick leave                           | <u>5 198</u>        | <u>12 387</u>       |
|                                                    | .....(196 812)..... | .....398 872.....   |
| Cash flow related to operating activities          | <u>(322 702)</u>    | <u>449 021</u>      |
| <b>INVESTMENT ACTIVITIES</b>                       |                     |                     |
| Acquisition of investments                         | (1 994 828)         | (3 560 000)         |
| Cashing of investments in the form of debentures   | <u>20 500</u>       |                     |
| Cash flow related to investment activities         | <u>(1 974 328)</u>  | <u>(3 560 000)</u>  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>     | (2 297 030)         | (3 110 979)         |
| <b>OPENING CASH AND CASH EQUIVALENTS</b>           | <u>19 967 898</u>   | <u>23 078 877</u>   |
| <b>CLOSING CASH AND CASH EQUIVALENTS</b>           | <u>\$17 670 868</u> | <u>\$19 967 898</u> |
| <br>Closing cash and cash equivalents include:     |                     |                     |
| Cash on hand                                       | \$181 086           | \$109 768           |
| Short-term investments                             | <u>17 489 782</u>   | <u>19 858 130</u>   |
|                                                    | <u>\$17 670 868</u> | <u>\$19 967 898</u> |

The notes are an integral part of these financial statements.

**CAPITAL FINANCIÈRE AGRICOLE INC.**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. STATUS AND NATURE OF ACTIVITIES**

Capital Financière agricole inc. 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 to the extent that these projects present a significant advantage for the primary sector.

**2. ACCOUNTING POLICIES**

The financial statements of Capital Financière agricole inc. were drawn up by management in keeping with the accounting principles generally recognized in Canada. These statements include amounts based on best judgements and estimates.

**Short-term investments**

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

**Investments**

Venture capital investments take the form of capital-stock or debentures. The Corporation records its investments at consolidation value when its share in an issuing corporation's voting securities allow it to exercise significant influence on this corporation's financial and administrative decisions. Capital-stock investments, for which the corporation exercises no control or notable influence, and debentures are recorded at acquisition cost plus accrued interest minus all long-term capital losses and provisions for losses, where applicable.

An investment is classified a doubtful loan when the credit quality has deteriorated to the point that the corporation is no longer reasonably certain of recovering all capital and interest. At this time, interest income is no longer recorded and a provision for losses is posted.

**Provision for losses**

The provision for losses in investments is presented as a reduction in their book values so as to reflect their estimated realizable values. If loans are deemed doubtful, their book value is posted as their estimated realizable value. If the amounts and moment of realization of future cash flows cannot be reasonably estimated, the estimated realization values are measured according to the observable market prices for these loans or according to the judgement of the corporation's management.

The provision is established on a case-by-case basis and posted as soon as the losses can be reasonably evaluated. The annual variation in this provision is posted to the statement of revenue and expenditure and deficit.

**Fixed assets**

Materials and equipment are recorded at acquisition cost and amortized over their service life using the straight-line method at a rate of 33.33%.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Cash and cash equivalents**

The Capital Financière agricole inc. policy consists in presenting, as cash and cash equivalents, 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.

**CAPITAL FINANCIÈRE AGRICOLE INC.**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. SHORT-TERM INVESTMENTS**

|                                                              | 2005                | 2004                |
|--------------------------------------------------------------|---------------------|---------------------|
| Discount notes – related                                     |                     | \$698 236           |
| Bonds, 2.86% and 3.31%, maturing by October 1, 2007          | \$8 497 052         |                     |
| Commercial papers, 2.7% to 3.08%, maturing by March 30, 2006 | 8 992 730           | 19 159 894          |
|                                                              | <u>\$17 489 782</u> | <u>\$19 858 130</u> |

**4. INVESTMENTS**

|                                                            | 2005               | 2004               |
|------------------------------------------------------------|--------------------|--------------------|
| Common capital stock – portfolio investments               | \$338 647          | \$350 000          |
| Common capital stock – satellite corporations              | 200 000            | 125 000            |
|                                                            | <u>538 647</u>     | <u>475 000</u>     |
| Debentures, 9% to 15%, maturing by February 2014.          |                    |                    |
| Capital and capitalized interest are cashable as follows:  |                    |                    |
| \$235 409 in 2006, \$529 496 in 2007, \$694 419 in 2008    | 4 625 299          | 2 873 034          |
| \$788 321 in 2009 and \$2 377 654 for future fiscal years. | (728 049)          |                    |
| Provision for losses                                       | <u>3 897 250</u>   | <u>2 873 034</u>   |
| Current portion                                            | (235 409)          | (75 809)           |
|                                                            | <u>3 661 841</u>   | <u>2 797 225</u>   |
|                                                            | <u>\$4 200 488</u> | <u>\$3 272 225</u> |

At March 31, 2005, the debentures subject to a provision for losses totalled \$728 049.

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, advances and contributions or make 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 of any type at \$1.2 million per entity.

**5. FIXED ASSETS**

|                         | 2005    |                          |         | 2004    |
|-------------------------|---------|--------------------------|---------|---------|
|                         | Cost    | Accumulated depreciation | Net     | Net     |
| Materials and equipment | \$6 169 | \$4 284                  | \$1 885 | \$3 941 |

**6. PROVISION FOR SICK LEAVE**

|                               | 2005            | 2004            |
|-------------------------------|-----------------|-----------------|
| Opening balance               | \$48 682        | \$36 295        |
| Expenditure for the year      | 10 071          | 16 315          |
| Benefits paid during the year | (4 873)         | (3 928)         |
| Closing balance               | <u>\$53 880</u> | <u>\$48 682</u> |



**CAPITAL FINANCIÈRE AGRICOLE INC.**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**7. PENSION PLANS**

The staff members of Capital Financière agricole inc. participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The contributions of the Société imputées to results for the fiscal year total \$18 061 (2004: \$15 945). Capital Financière agricole inc.'s obligations vis-à-vis 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, non-cumulative preferred dividend of 5% on amount paid, participating, non-voting, redeemable by the Society at the amount paid, without nominal value.

Unlimited number of class C shares, cumulative preferred dividend of 2% on amount paid, non-participating, non-voting, redeemable by the Society at the amount paid, without nominal value.

Unlimited number of class D shares, participating, voting, redeemable by holders or the corporation at the amount paid, without nominal value.

**Issued and paid:**

|                       | 2005                | 2004                |
|-----------------------|---------------------|---------------------|
| 24 000 class A shares | <u>\$24 000 000</u> | <u>\$24 000 000</u> |

**9. RELATED PARTY TRANSACTIONS**

The main transactions with La Financière agricole du Québec were as follows:

|                                          | 2005      | 2004      |
|------------------------------------------|-----------|-----------|
| Salaries and fringe benefits             | \$199 028 | \$201 594 |
| Transportation and communication service | 4 511     | 3 322     |
| Rent                                     | 20 292    | 20 292    |

The Society also provided Capital Financière agricole inc. with professional services for no consideration. These services, estimated at \$241 029 for the fiscal year ended March 31, 2005 (2004: \$215 047), are measured at exchange value and are not recorded in the financial statements.

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 either joint control or significant influence by it. Capital Financière agricole inc. 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.

**CAPITAL FINANCIÈRE AGRICOLE INC.**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**10. FINANCIAL INSTRUMENTS****Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The long-term financial instruments held by the Corporation have no market price. However, the fair value of some of these instruments was determined through valuation systems used in venture capital market. The following assumptions and calculation methods were used:

- Common shares in privately owned utilities are presented at acquisition cost unless a concrete, quantifiable event with a significant impact on the company's value justifies a value increase or decrease. However, if certain instruments remain at acquisition cost for longer than 36 months in the absence of events, they will be assessed in greater detail.
- 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. However, this calculation does not take into account future royalties in certain debenture agreements give the lack of information and the latter's uncertainty to actualize these cash flows.

|               | 2005       |            | 2004       |            |
|---------------|------------|------------|------------|------------|
|               | Book value | Fair value | Book value | Fair value |
| Common shares | \$538 647  | \$538 647  | \$475 000  | \$475 000  |
| Debentures    | 3 897 250  | 3 763 217  | 2 873 034  | 2 552 282  |

**Credit risk**

The Corporation is exposed to a credit risk linked to the repayment of investments in debentures. Consequently, during the fiscal year, it performed an ongoing assessment and recorded a provision for losses, where need be. These assets are presented at book value in the balance sheet.

The Corporation is exposed to economic conditions affecting the sectors in which it exercises its activities. The portfolio's total book value is divided over the following three sectors:

|                   |       |
|-------------------|-------|
| Food processing   | 71.6% |
| Food distribution | 15.1% |
| Farm production   | 13.3% |

**CAPITAL FINANCIÈRE AGRICOLE INC.****MANAGEMENT'S REPORT**

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The financial statements of the Capital Financière agricole inc. were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

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.

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 oversees the way in which management fulfils its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Centre's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

For Capital Financière agricole inc.,

Paul Dupont  
President and Head of Operations

Sylvie Grondin, FCGA  
Vice-President, Corporate Affairs  
La Financière agricole du Québec

Québec, May 17, 2005

**CAPITAL FINANCIÈRE AGRICOLE INC.**

## AUDITOR'S REPORT

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To Capital Financière agricole inc. shareholders

I have audited the balance sheet of the Capital Financière agricole inc. as at March 31, 2005, the statement of revenue and expenditure and deficit as well as the cash flow statement for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Corporation's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 17, 2005

**CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**  
(R.S.Q., c. C-8.1)

**INCOME AND DEFICIT**  
for the year ended March 31, 2005

|                                                  | <u>2005</u>           | <u>2004</u>           |
|--------------------------------------------------|-----------------------|-----------------------|
| <b>REVENUE</b>                                   |                       |                       |
| Projects                                         |                       |                       |
| Research and development                         | \$14 695 409          | \$16 902 886          |
| Services                                         | 16 254 597            | 16 005 356            |
| Other revenue                                    | <u>757 698</u>        | <u>804 421</u>        |
|                                                  | <u>31 707 704</u>     | <u>33 712 663</u>     |
| <b>EXPENDITURE</b>                               |                       |                       |
| Salaries and fringe benefits                     | 20 411 073            | 20 920 532            |
| Direct project costs                             | 5 941 572             | 5 992 070             |
| Building occupancy expenses                      | 3 056 959             | 3 082 073             |
| Operating expenses                               | 1 911 980             | 2 406 586             |
| Severance pay                                    | 417 945               | 1 059 205             |
| Financial expenses                               | 701 316               | 688 898               |
| Depreciation of fixed assets                     | <u>2 115 121</u>      | <u>2 181 460</u>      |
|                                                  | <u>34 555 966</u>     | <u>36 330 824</u>     |
| <b>LOSS BEFORE THE FOLLOWING ITEMS</b>           | (2 848 262)           | (2 618 161)           |
| Marketing loss                                   |                       | (9 150 196)           |
| Share in the satellite corporation's performance |                       | (912 051)             |
| Gouvernement du Québec contribution (Note 12)    | <u>3 000 000</u>      | <u>3 200 000</u>      |
| <b>NET INCOME NET LOSS</b>                       | 151 738               | (9 480 408)           |
| <b>DEFICIT, BEGINNING OF YEAR</b>                | <u>(16 487 782)</u>   | <u>(7 007 374)</u>    |
| <b>DEFICIT, END OF YEAR</b>                      | <u>\$(16 336 044)</u> | <u>\$(16 487 782)</u> |

The notes are an integral part of these financial statements.

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                        | 2005                | 2004                |
|----------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                          |                     |                     |
| <b>Current assets</b>                  |                     |                     |
| Cash on hand                           | \$1 865 000         |                     |
| Accounts receivable (Note 3)           | 3 933 188           | \$14 721 922        |
| Projects in progress                   | 2 299 917           | 2 606 465           |
| Prepaid expenses                       | 381 111             | 379 444             |
| Inventory (Note 4)                     | 830 972             | 1 120 013           |
|                                        | <u>9 310 188</u>    | <u>18 827 844</u>   |
| <b>Long-term receivables</b> (Note 5)  | 1 394 313           | 528 874             |
| <b>Investments</b> (Note 6)            | 85 634              | 85 633              |
| <b>Fixed assets</b> (Note 7)           | <u>17 523 207</u>   | <u>18 277 640</u>   |
|                                        | <u>19 003 154</u>   | <u>18 892 147</u>   |
|                                        | <u>\$28 313 342</u> | <u>\$37 719 991</u> |
| <b>LIABILITIES</b>                     |                     |                     |
| <b>Current liabilities</b>             |                     |                     |
| Bank overdraft                         |                     | \$9 228 269         |
| Bank loan (Note 8)                     | \$3 889 520         | 3 895 880           |
| Accounts payable and accruals (Note 9) | 7 590 353           | 7 774 502           |
| Deferred revenue                       | 609 802             | 956 052             |
| Instalment on long-term debt (Note 10) | 6 379 192           | 6 126 600           |
|                                        | <u>18 468 867</u>   | <u>27 981 303</u>   |
| <b>Long-term debt</b> (Note 10)        | 933 561             | 963 997             |
| <b>Deferred credits</b> (Note 7)       | <u>772 818</u>      | <u>788 333</u>      |
|                                        | <u>1 706 379</u>    | <u>1 752 330</u>    |
| <b>SHAREHOLDER'S EQUITY</b>            |                     |                     |
| Capital stock (Note 11)                | 24 474 140          | 24 474 140          |
| Deficit                                | <u>(16 336 044)</u> | <u>(16 487 782)</u> |
|                                        | <u>8 138 096</u>    | <u>7 986 358</u>    |
|                                        | <u>\$28 313 342</u> | <u>\$37 719 991</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Claire Boulé  
Lionel Vézina

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

CASH FLOWS  
for the year ended March 31, 2005

|                                                               | 2005        | 2004          |
|---------------------------------------------------------------|-------------|---------------|
| <b>OPERATING ACTIVITIES</b>                                   |             |               |
| Net income (Net loss)                                         | \$151 738   | \$(9 480 408) |
| Adjustments for:                                              |             |               |
| Depreciation of fixed assets                                  | 2 115 121   | 2 181 460     |
| Loss on disposal of fixed assets                              | 75 947      | 19 269        |
| Drop in value of other investments                            |             | 2 533 756     |
| Share in performance of satellite corporation                 |             |               |
| Share in operating results                                    |             | 912 051       |
| Share in drop in value of assets                              |             | 3 889 774     |
| Interest capitalized in advance by the Ministère des Finances | 200 514     | 231 577       |
| Change in non-cash elements linked to operations (Note 13)    | 10 926 633  | (1 099 558)   |
| Cash flows provided by (used for) operating activities        | 13 469 953  | (812 079)     |
| <b>INVESTMENT ACTIVITIES</b>                                  |             |               |
| Reimbursement of advances on wages to employees               | 31 354      | 66 538        |
| Long-term receivables                                         | (896 793)   | 175 000       |
| Repayment of loans to employees                               | 4 745       | 23 244        |
| Acquisition of investments                                    | (1)         | (85 633)      |
| Acquisition of fixed assets                                   | (1 556 385) | (1 989 420)   |
| Proceeds from disposal of fixed assets                        | 25 114      | 459           |
| Cash flows used for investment activities                     | (2 391 966) | (1 809 812)   |
| <b>FINANCING ACTIVITIES</b>                                   |             |               |
| Repayment to Financing Fund                                   | (945 775)   |               |
| Repayment of long-term debt                                   | (15 171)    | (12 890)      |
| Note payable to Financing Fund                                | 939 121     | 745 775       |
| Long-term debt                                                | 43 467      |               |
| Net (decrease) increase in bank borrowing                     | (6 360)     | 13 880        |
| Cash flows provided by financing activities                   | 15 282      | 746 765       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | 11 093 269  | (1 875 126)   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>           | (9 228 269) | (7 353 143)   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                 | \$1 865 000 | \$(9 228 269) |

The notes are an integral part of these financial statements.

**CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

**1. CONSTITUTION AND PURPOSE**

The purpose of the Centre de recherche industrielle du Québec, a legal person established in the public interest and constituted under the Act respecting the Centre de recherche industrielle du Québec (R.S.Q., c. C-8.1), is to design, develop and test industrial equipment, products and processes; operate, alone or in partnership, the equipment, products and processes it develops or for which it owns the rights; collect and disseminate technological and industrial data and information; and carry out standardization and certification activities. The Centre's actions fall under State operations and are attributed to the Minister of Finance.

Under federal and provincial income tax legislation, the Corporation is not subject to income taxes.

**2. ACCOUNTING POLICIES**

The Centre's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Projects in progress**

Projects in progress are accounted for according to the percentage-of-completion method established based on actual billed labour and purchases charged to contracts in relation to the total estimated labour and purchases. Where the estimated total cost exceeds the recoverable amount, the surplus is recorded as a loss during the year.

**Inventory**

Inventory has been recorded at the lesser of cost and net realizable value. The cost was calculated using the first in, first out method.

**Investments**

The Centre records its investments at equity value when its participation in an issuing corporation's voting shares allow it to exercise notable influence on this satellite corporation's financial and administrative decisions.

Other investments are recorded at acquisition cost. Any lasting drop in value is deducted from the book value of the investments.

**Fixed assets**

Fixed assets are recorded at cost.

The building erected on a plot of land belonging to the Communauté urbaine de Québec is depreciated according to the straight-line method over the 38-year period during which the Centre has a right to use this land. 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% |
| Data processing equipment      | 25%              |
| Automotive equipment           | 30%              |

Equipment purchased for the Centre's research and development projects is not capitalized but charged to the cost of the project concerned and billed to clients.



## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**2. ACCOUNTING POLICIES (cont'd)****Intangible assets**

Intangible assets, comprising software, patents and right to use generic technologies, are recorded at cost and amortized using the methods and rates indicated below. They are subject to a depreciation test when changes in the situation show that their book value cannot be covered. Any excess book value over fair value is posted to results for the period during which the depreciation was determined.

|                                              | <u>Method</u>          | <u>Rate</u> |
|----------------------------------------------|------------------------|-------------|
| Patens and right to use generic technologies | Straight-line          | 5 years     |
| Software                                     | Diminishing<br>balance | 30%         |

**Deferred revenue**

Deferred revenue consists of amounts billed for services not rendered and of clients' deposits collected in advance, in accordance with contract agreements.

**Deferred credits**

Subsidies related to fixed assets 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 interenterprise government defined-benefit plans, given that the Centre lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Cash and cash equivalents**

Cash and cash equivalents consist of bank balances including bank overdrafts whose balances often vary between overdrawn and available.

**3. ACCOUNTS RECEIVABLE**

|                                                                              | <u>2005</u>        | <u>2004</u>         |
|------------------------------------------------------------------------------|--------------------|---------------------|
| Clients                                                                      | \$3 216 455        | \$2 697 239         |
| Ministère du Développement économique<br>de l'Innovation et de l'Exportation | 667 000            | 11 393 200          |
| VAT receivable*                                                              | 626 738            | 4 745               |
| Short-term portion of long-term receivables                                  | 49 733             | 4 745               |
|                                                                              | <u>\$3 933 188</u> | <u>\$14 721 922</u> |

\* Claiming of the value-added tax (VAT) was reviewed by French fiscal authorities, who established that the VAT repayment claim of \$408 977 was not eligible and, consequently, this amount was struck off the VAT receivable item. The amount of the expenditure was recorded to "Direct project costs". The Centre did everything necessary to express its opposition to this decision.

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**4. INVENTORY**

|                    | 2005             | 2004               |
|--------------------|------------------|--------------------|
| Parts and supplies | \$153 145        | \$201 506          |
| Products*          | 677 827          | 918 507            |
|                    | <u>\$830 972</u> | <u>\$1 120 013</u> |

\* At March 31, 2005, the Centre wrote down product stocks by a \$498 603. This expenditure was recorded to "Direct project costs".

**5. LONG-TERM RECEIVABLES**

|                                                                                                 | 2005               | 2004             |
|-------------------------------------------------------------------------------------------------|--------------------|------------------|
| Loans to employees                                                                              |                    | \$4 745          |
| Advance on wages to employees*                                                                  | \$497 520          | 528 874          |
| Subsidy receivable – Ministère du Développement économique, de l'Innovation et de l'Exportation | 946 526            |                  |
|                                                                                                 | <u>1 444 046</u>   | <u>533 619</u>   |
| Short-term portion                                                                              | (49 733)           | (4 745)          |
|                                                                                                 | <u>\$1 394 313</u> | <u>\$528 874</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.

**6. INVESTMENTS**

|                                                                                                   | 2005            | 2004            |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Investment in a satellite corporation:<br>Intellium Technologies inc., (participation of 50%) (*) |                 |                 |
| Other investments                                                                                 |                 |                 |
| Shares in a private corporation                                                                   | \$1             |                 |
| Shares in a public corporation                                                                    | 85 633          | \$85 633        |
|                                                                                                   | <u>\$85 634</u> | <u>\$85 633</u> |

\* The Corporation holds the following shares in Intellium Technologies inc. (Intellium):

- 500 000 class B, voting and participating shares (2004: 500 000);
- 500 000 class C, non-voting and non-participating shares, redeemable (2004: 500 000).

This entire investment was written down in 2004.

In keeping with agreements signed between the Fonds de solidarité des travailleurs du Québec in case Intellium ceased operating, On May 31, 2004, the Centre took over all of Intellium's property—mainly licences and rights, which had been transferred in the agreements constituting Intellium in 2001.

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**7. FIXED ASSETS**

|                           | 2005                |                             | 2004                |
|---------------------------|---------------------|-----------------------------|---------------------|
|                           | Cost                | Accumulated<br>Depreciation | Net<br>value        |
| Tangible assets           |                     |                             |                     |
| Land                      | \$1 239 436         |                             | \$1 239 436         |
| Building*                 | 21 153 580          | \$13 191 357                | 8 069 100           |
| Furniture and equipment** | 21 155 658          | 15 819 623                  | 5 336 035           |
| Data processing equipment | 7 194 389           | 6 153 387                   | 1 041 002           |
| Automobile equipment      | 261 457             | 168 463                     | 92 994              |
|                           | <u>51 004 520</u>   | <u>35 332 830</u>           | <u>15 671 690</u>   |
| Intangible assets         | <u>5 453 375</u>    | <u>3 601 858</u>            | <u>1 851 517</u>    |
|                           | <u>\$56 457 895</u> | <u>\$38 934 688</u>         | <u>\$17 523 207</u> |
|                           |                     |                             | <u>\$18 277 640</u> |

\* The Centre acquired the right to use a piece of land belonging to the Communauté urbaine de Québec. A building, with a net book value of \$776 952 as at March 31, 2005 (2004: \$809 510) will be transferred to the CUQ at no cost on July 24, 2030.

\*\* Under the Public Investment Acceleration Plan (PAIP), the Centre set up a test bank whose cost totalled \$1 071 447 at March 31, 2005 (2004: \$964 272).

A deferred credit of \$939 121 was recorded in the books on March 31, 2005 (2004: \$860 000) for the contribution the Centre obtained under the above-mentioned program.

This credit was amortized at \$94 636 (2004: \$71 667), i.e. the same rate as the test bank, thereby bringing its net value to \$772 818 (2004: \$788 333).

**8. BANK LOAN**

At March 31, 2005, the Corporation had an authorized bank credit line of \$4 million. Amounts withdrawn bear interest at a fixed rate of 2.84% until January 6, 2006. Interest charges for the fiscal year total \$118 189 (2004: \$127 096).

**9. ACCOUNTS PAYABLE AND ACCRUALS**

|                                         | 2005               | 2004               |
|-----------------------------------------|--------------------|--------------------|
| Suppliers and other accrued liabilities | \$2 769 966        | \$2 596 074        |
| Salaries and fringe benefits            | 2 073 431          | 2 626 380          |
| Provision for vacation time             | 2 314 578          | 2 178 503          |
| Severance pay                           | <u>432 378</u>     | <u>373 545</u>     |
|                                         | <u>\$7 590 353</u> | <u>\$7 774 502</u> |

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. LONG-TERM DEBT**

|                                                                                                                                                                                    | <u>2005</u>        | <u>2004</u>                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------------|
| Advance from the Ministère des Finances (*)                                                                                                                                        | \$6 312 981        | \$6 112 467                 |
| Note payable to the Financing Fund, fixed rate of 4.58%, repayable semi-annually as of October 1, 2005, guaranteed by a moveable hypothec without delivery, maturing April 1, 2013 | 939 121            |                             |
| Borrowings at fixed rates of 1.90% to 9.25%, repayable in 60 monthly payments of \$379 to \$1 378, guaranteed by rolling stock, maturing at various dates until February 2010      | 60 651             | 32 355                      |
| Note payable to the Financing Fund repaid in January 2005                                                                                                                          | <u>7 312 753</u>   | <u>945 775</u><br>7 090 597 |
| Portion maturing within one year                                                                                                                                                   | <u>(6 379 192)</u> | <u>(6 126 600)</u>          |
|                                                                                                                                                                                    | <u>\$933 561</u>   | <u>\$963 997</u>            |

\* The advance from the Ministère des Finances, bearing interest at the National Bank of Canada's prime rate, is repayable in its entirety when it comes due on March 31, 2006. Interest is payable no later than the advance's due date.

Interest charges in the long-term debt for the fiscal year total \$228 913 (2004: \$235 224).

The capital payments to be made on the long-term debt over the next five fiscal years break down as follows:

|      |             |
|------|-------------|
| 2006 | \$6 379 192 |
| 2007 | 113 995     |
| 2008 | 116 192     |
| 2009 | 121 338     |
| 2010 | 125 577     |

**11. CAPITAL STOCK**

|                                                             | <u>2005</u>         | <u>2004</u>         |
|-------------------------------------------------------------|---------------------|---------------------|
| Authorized<br>650 000 shares with a par value of \$100 each |                     |                     |
| Issued and fully paid<br>244 741 shares                     | <u>\$24 474 140</u> | <u>\$24 474 140</u> |

**12. CONTRIBUTION DU GOUVERNEMENT DU QUÉBEC**

By its Order-in-Council of March 23, 2005, the Québec government authorized the Ministère du Développement économique, de l'Innovation et de l'Exportation to pay the Centre \$3 000 000 to reduce its loss for the current fiscal year. The \$3 000 000 was recorded in the fiscal year's results as a Gouvernement du Québec contribution.

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**13. CASH FLOWS**

Changes in the non-cash elements linked to operations are as follows:

|                               | 2005                | 2004                 |
|-------------------------------|---------------------|----------------------|
| Debtors                       | \$10 863 110        | \$(1 800 491)        |
| Projects in progress          | 306 548             | 643 900              |
| Inventory                     | 289 041             | (32 316)             |
| Prepaid expenses              | (1 667)             | (14 406)             |
| Accounts payable and accruals | (184 149)           | (101 674)            |
| Deferred revenue              | (346 250)           | 205 429              |
|                               | <u>\$10 926 633</u> | <u>\$(1 099 558)</u> |

Interest paid during the fiscal year amounted to \$452 754 (2004: \$442 457).

**14. PENSION PLANS**

The employees of the Centre participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments on retirement and death.

The Centre's contributions charged to the year-end statement amount to \$744 842 (2004: \$672 036). The Centre's liability towards these Government plans is restricted to its contributions as an employer.

**15. RELATED PARTY TRANSACTIONS**

During the fiscal year, the Centre performed the following transactions with:

|                                                                                | 2005       | 2004       |
|--------------------------------------------------------------------------------|------------|------------|
| Ministère des Finances:                                                        |            |            |
| Capitalized interest                                                           | \$200 514  | \$252 352  |
| Ministère du Développement économique,<br>de l'Innovation et de l'Exportation: |            |            |
| Completed projects                                                             | 20 000 000 | 20 000 000 |
| Intellium Technologies inc.:                                                   |            |            |
| Receivables                                                                    |            | 210 860    |
| Proceeds - projects                                                            |            | 263 038    |

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 either joint control or significant influence by it. The Centre 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.

## CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**16. FINANCIAL INSTRUMENTS****Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future. The fair value of the investments quoted corresponds to their stock market value. The following table shows the book value and fair value of the Corporation's long-term financial instruments:

|                                                   | 2005                     |                    | 2004                   |                             |
|---------------------------------------------------|--------------------------|--------------------|------------------------|-----------------------------|
|                                                   | Book<br>value            | Fair<br>value      | Book<br>value          | Fair<br>value<br>(Adjusted) |
| Financial assets:                                 |                          |                    |                        |                             |
| Long-term receivables                             | \$1 444 046 <sup>1</sup> | \$1 444 046        | \$533 619 <sup>1</sup> | 533 619                     |
| Long-term investment                              | 85 634 <sup>2</sup>      | 47 574             | 85 633 <sup>2</sup>    | 47 574                      |
|                                                   | <u>\$1 529 680</u>       | <u>\$1 491 620</u> | <u>\$619 252</u>       | <u>\$581 193</u>            |
| Financial liabilities:                            |                          |                    |                        |                             |
| Long-term debts (including<br>short-term portion) | <u>\$7 312 753</u>       | <u>\$7 307 158</u> | <u>\$7 090 597</u>     | <u>\$7 083 269</u>          |

1 The fair value is considered equivalent to the net book value, given the absence of markets for this type of share.

2 The book value is not reduced, given that it did not undergo a lasting decrease.

**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.

**Exchange risk**

The Corporation 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 the Corporation's results and financial position.

**17. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Centre de recherche industrielle du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Centre de recherche industrielle du 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 way in which management fulfils its financial reporting duties, and has approved the financial statements. It is assisted by the audit committee.

The Auditor General of Québec has audited the Centre's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 Brosseau  
for Serge Guérin  
President and Chief Executive Officer

Lionel Vézina  
Vice-President, Finance and Administration

Québec, June 3, 2005

**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, 2005, the statement of income and deficit and the cash flow statement for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Centre's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 3, 2005



**COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION**  
(R.S.Q., c. R-20)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                                                | <u>2005</u>             | <u>2004</u>             |
|----------------------------------------------------------------|-------------------------|-------------------------|
| <b>REVENUE</b>                                                 |                         |                         |
| Contributions (Note 3)                                         |                         |                         |
| Ministère de l'Emploi et de la Solidarité sociale              | \$33 700                | \$33 000                |
| Commission de la construction du Québec                        | 1 005 000               | 985 200                 |
| Corporation des maîtres mécaniciens en<br>tuyauterie du Québec | 33 700                  | 33 000                  |
| Régie du bâtiment du Québec                                    | 33 700                  | 33 000                  |
| Ministère du Travail                                           | 100 000                 | 100 000                 |
| Corporation des maîtres électriciens du Québec                 | 33 700                  | 33 000                  |
| Other                                                          | <u>2 267</u>            | <u>3 124</u>            |
|                                                                | <u>1 242 067</u>        | <u>1 220 324</u>        |
| <b>EXPENDITURE</b>                                             |                         |                         |
| Salaries and fringe benefits (Note 4)                          | 750 386                 | 755 054                 |
| Transport and communications                                   | 49 465                  | 50 046                  |
| Professional and administrative services                       | 117 254                 | 127 817                 |
| Maintenance and repairs                                        | 23 749                  | 35 651                  |
| Rent                                                           | 129 510                 | 129 833                 |
| Materials and supplies                                         | 9 344                   | 9 896                   |
| Equipment                                                      | 314                     | 14 037                  |
| Depreciation of fixed assets                                   | <u>78 623</u>           | <u>76 772</u>           |
|                                                                | <u>1 158 645</u>        | <u>1 199 106</u>        |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                         | 83 422                  | 21 218                  |
| <b>SURPLUS, BEGINNING OF YEAR</b>                              | <u>222 532</u>          | <u>201 314</u>          |
| <b>SURPLUS, END OF YEAR</b>                                    | <u><u>\$305 954</u></u> | <u><u>\$222 532</u></u> |

The notes are an integral part of these financial statements.

## COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

BALANCE SHEET  
as at March 31, 2005

|                                                            | <u>2005</u>             | <u>2004</u>             |
|------------------------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                              |                         |                         |
| <b>Current assets</b>                                      |                         |                         |
| Cash on hand                                               | \$600                   | \$600                   |
| Accounts receivable                                        | 3 694                   | 3 089                   |
| Advances to the Consolidated Revenue Fund, interest-free   | <u>442 329</u>          | <u>287 734</u>          |
|                                                            | 446 623                 | 291 423                 |
| <b>Fixed assets (Note 5)</b>                               | <u>177 816</u>          | <u>252 623</u>          |
|                                                            | <u><u>\$624 439</u></u> | <u><u>\$544 046</u></u> |
| <b>LIABILITIES</b>                                         |                         |                         |
| <b>Current liabilities</b>                                 |                         |                         |
| Accounts payable and accruals                              | \$38 953                | \$39 638                |
| <b>Provision for sick leave and vacation time (Note 7)</b> | 279 532                 | 281 876                 |
| <b>SURPLUS</b>                                             | <u>305 954</u>          | <u>222 532</u>          |
|                                                            | <u><u>\$624 439</u></u> | <u><u>\$544 046</u></u> |

Commissaire de l'industrie de la construction,  
Josette Béliveau

The notes are an integral part of these financial statements.

## COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 1. CONSTITUTION AND PURPOSE

The Commissaire de l'industrie de la construction, constituted by the Act respecting labour relations, vocational training and manpower management in the construction industry (R.S.Q., c. R-20), is mandated, at the request of any interested party, to hear and settle conflicts regarding qualifications related to the practice of a trade or an occupation. Any problem of interpretation or enforcement of section 19 of the regulations adopted under section 20 of the Act constituting the Commissaire de l'industrie de la construction must be referred to it. It also rules on recourses formulated under section 164.1 of the Building Act (R.S.Q., c. B-1.1), section 41.1 of the Act respecting manpower vocational training and qualification (R.S.Q., c. F-5) and section 35.2 of the Act respecting electrical installations (R.S.Q., c. I-13.01).

#### 2. ACCOUNTING POLICIES

The financial statements of the Commissaire were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown as it would not provide any useful additional information regarding the Commissaire's cash flows during the year.

##### Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated service life using the straight-line method at the following rates:

|                                                 | Rate         |
|-------------------------------------------------|--------------|
| Leasehold improvements                          | 10%          |
| Office automation and data processing equipment | 20% and 33⅓% |
| Computer systems                                | 20%          |

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interentreprise government defined-benefit plans, given that the Commissaire lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 3. CONTRIBUTIONS

Commissaire de l'industrie de la construction financing comprises the following amounts:

- the amounts paid by the Minister of Labour and taken from the appropriations allocated annually for this purpose by the National Assembly;
- the amounts paid by the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Minister of Employment and Social Solidarity and a mandatory corporation contemplated in section 129.3 of the Building Act (chapter B), the amount and conditions of payment of which are determined, for each, by the Government;
- the amounts collected from applying the tariffs on fees, honoraria and other business-related expenses incurred by the Commissaire de l'industrie de la construction, for cases tried before it and requests addressed to it.

**COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. SALARIES AND FRINGE BENEFITS**

|                                           | <u>2005</u>      | <u>2004</u>      |
|-------------------------------------------|------------------|------------------|
| Salaries and fringe benefits <sup>1</sup> | <u>\$750 386</u> | <u>\$755 054</u> |

1 An expenditure of \$45 278 was posted to "Salaries and fringe benefits" in 2005 for the employer's share in the provision for vacation pay and sick leave. During the fiscal year, the Commissaire received \$45 278 from the Québec government specifically to finance this expense. This amount was posted to reducing the expenditure for salaries and fringe benefits in 2005.

**5. FIXED ASSETS**

|                                                 | 2005           |                          |               | 2004           |
|-------------------------------------------------|----------------|--------------------------|---------------|----------------|
|                                                 | Cost           | Accumulated depreciation | Net           | Net            |
| Leasehold improvements                          | \$134 320      | \$27 832                 | \$106 488     | \$119 920      |
| Office automation and data processing equipment | 44 203         | 31 293                   | 12 910        | 15 866         |
| Computer systems                                | <u>292 093</u> | <u>233 675</u>           | <u>58 418</u> | <u>116 837</u> |
|                                                 | \$470 616      | \$292 800                | \$177 816     | \$252 623      |

Disbursement related to acquisitions for the fiscal year totalled \$3 816 (2004: \$13 149).

**6. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Commissaire 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 Commissaire de l'industrie de la construction 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.

**7. FUTURE BENEFITS PAYMENTS****Pension plans**

The staff members of the Commissaire de l'industrie de la construction participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (RRPE) These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commissaire's contributions charged to the year-end statement amount to \$26 348 (2004: \$22 789). The liability of the Commissaire towards these Government plans is restricted to its contributions as an employer.

## COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 7. FUTURE BENEFITS PAYMENTS (cont'd)

## Provision for sick leave and vacation time

|                               | 2005             |                 |                  | 2004             |
|-------------------------------|------------------|-----------------|------------------|------------------|
|                               | Sick leave       | Vacation time   | Total            | Total            |
| Opening balance               | \$200 276        | \$81 600        | \$281 876        | \$274 576        |
| Charge for the year           | (5 879)          | 71 308          | 65 429           | 79 536           |
| Benefits paid during the year | (6 612)          | (61 161)        | (67 773)         | (72 236)         |
| Closing balance               | <u>\$187 785</u> | <u>\$91 747</u> | <u>\$279 532</u> | <u>\$281 876</u> |

## 8. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

## MANAGEMENT'S REPORT

The financial statements of the Commissaire de l'industrie de la construction were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

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 Commissaire 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 Commissaire's financial statements in accordance with auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Josette Béliveau  
Commissaire de l'industrie de la construction

Québec, May 20, 2005

**COMMISSAIRE DE L'INDUSTRIE DE LA CONSTRUCTION****AUDITOR'S REPORT**

---

To the National Assembly

I have audited the balance sheet of the Commissaire de l'industrie de la construction as at March 31, 2005 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of the Commissaire's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows 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 policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, May 20, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)  
GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NET ASSETS AVAILABLE FOR BENEFITS  
as at December 31, 2004  
(in thousands of dollars)

|                                                                           | <u>2004</u>       | <u>2003</u>       |
|---------------------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                             |                   |                   |
| Funds entrusted to the Caisse de dépôt et placement<br>du Québec (Note 4) |                   |                   |
| Employee contributions fund                                               | 33 935 944        | 30 608 751        |
| Employer contributions fund                                               | 3 810             | 1 254             |
| Supplemental pension plans fund                                           | <u>410 812</u>    | <u>387 764</u>    |
|                                                                           | 34 350 566        | 30 997 769        |
| Accounts receivable                                                       |                   |                   |
| Employee contributions                                                    | 107 541           | 92 670            |
| Employer contributions                                                    | 3 486             | 3 516             |
| Amounts receivable from the Gouvernement du Québec                        | 98 551            | 105 349           |
| Amounts receivable – transfers                                            | <u>3 273</u>      | <u>4 087</u>      |
|                                                                           | 212 851           | 205 622           |
| Cash on hand                                                              | <u>5 934</u>      | <u>3 642</u>      |
|                                                                           | <u>34 569 351</u> | <u>31 207 033</u> |
| <b>LIABILITIES</b>                                                        |                   |                   |
| Contribution refunds and pensions payable                                 | 12 807            | 13 023            |
| Excess employee contributions to be refunded                              | 29 430            | 27 646            |
| Administrative expenses payable                                           | 6 816             | 5 861             |
| Owed to the Gouvernement du Québec<br>- current account                   | <u>6 167</u>      | <u>3 949</u>      |
|                                                                           | <u>55 220</u>     | <u>50 479</u>     |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b><br>(Notes 6 and 8)               | <u>34 514 131</u> | <u>31 156 554</u> |

**GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (Note 7)**

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
And Material Resources

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2004

(in thousands of dollars)

|                                                                                                                   | <u>2004</u>              | <u>2003</u>              |
|-------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>INCREASE IN ASSETS</b>                                                                                         |                          |                          |
| Employee contributions, including contributions for past service                                                  | 666 494                  | 660 741                  |
| Contributions of independent employers                                                                            | 80 634                   | 72 169                   |
| Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)                               | 1 249 224                | 1 246 198                |
| Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)                | 2 260 936                | 2 729 266                |
| Interest income                                                                                                   | <u>2 530</u>             | <u>1 453</u>             |
|                                                                                                                   | 4 259 818                | 4 709 827                |
| Amounts received or receivable from the Gouvernement du Québec                                                    |                          |                          |
| Regular service                                                                                                   | 801 653                  | 762 744                  |
| Transferred service                                                                                               | <u>180 226</u>           | <u>162 912</u>           |
|                                                                                                                   | 981 879                  | 925 656                  |
|                                                                                                                   | <u>5 241 697</u>         | <u>5 635 483</u>         |
| <b>DECREASE IN NET ASSETS</b>                                                                                     |                          |                          |
| Benefits paid                                                                                                     |                          |                          |
| General plan                                                                                                      |                          |                          |
| Pensions                                                                                                          | 1 571 037                | 1 386 339                |
| Contribution refunds, including interest                                                                          | 83 427                   | 88 218                   |
| Transfers, including interest                                                                                     | 63 266                   | 42 139                   |
| Transfer of contributions cumulated by those targeted, including interest to Pension Plan of Management Personnel | 111 375                  | 116 593                  |
| Supplemental pension plans                                                                                        |                          |                          |
| Pensions                                                                                                          | 20 016                   | 18 895                   |
| Contribution refunds, including interest                                                                          | 462                      | 356                      |
| Transfers, including interest                                                                                     | 14                       | 112                      |
| Administrative expenses                                                                                           | <u>34 523</u>            | <u>34 004</u>            |
|                                                                                                                   | 1 884 120                | 1 686 656                |
| <b>NET INCREASE FOR THE YEAR</b>                                                                                  | 3 357 577                | 3 948 827                |
| <b>NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR</b>                                                       | <u>31 156 554</u>        | <u>27 207 727</u>        |
| <b>NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR</b>                                                             | <u><u>34 514 131</u></u> | <u><u>31 156 554</u></u> |



## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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, please consult the Act respecting the Government and Public Employees Retirement Plan (R.S.Q., c. R-10).

##### a) General information

The RREGOP is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to employees belonging to the civil service, the health and social services and the education sectors since July 1, 1973.

The pensions and benefits described below may differ for certain categories of employees designated by the Government.

##### 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 \$680 million and the remainder is assumed 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 the administration of this plan are assumed by the RREGOP and divided equally between the employee and employer contribution funds.

##### c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at the age of 60, if they have 35 years' pensionable service.

Contributors are entitled to pension benefits without any actuarial reduction at the age of 55.

The pension is obtained by multiplying the average pensionable salary for the five best-paid years by 2% per year of service. It can be added to pension credits acquired under the 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 beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

##### d) Death benefits

If a contributor or a pensioner aged 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%. In the case where there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, where applicable.

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is or 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 or 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 RREGOP before being eligible to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under 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 FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**1. DESCRIPTION OF THE RREGOP (cont'd)****f) Indexation of benefits**

Pension benefits under the RREGOP 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.

**2. ACCOUNTING POLICIES**

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

**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 Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the market value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of these individual funds are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains 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. These revenues are 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 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.

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, free of assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 5.35% of the excess 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, 1996 and reflects the changes made to the RREGOP since its publication in October 1998. This rate, in 2004, corresponds to 3.63% of the pensionable earnings.

In October 2004, CARRA actuaries submitted an actuarial valuation based using data as at December 31, 2002, thus updating the previous valuation performed using data at December 31, 1999. Given the results of this valuation and based on a favourable recommendation from the RREGOP pension committee, the Government adopted a resolution to set the rate at 7.06% as of January 1, 2005. This rate corresponds to 4.79% of pensionable earnings.

# **COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## **GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN**

### **NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

### **3. CAPITALIZATION POLICY (cont'd)**

The Act respecting the Government and Public Employees Retirement Plan does not oblige the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are presented 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.

Employee contributions and the contribution of independent employers are deposited respectively in the employee contributions fund and employer contributions funds with the Caisse de dépôt et placement du Québec.

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 Caisse de dépôt et placement du Québec 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 buy-outs payable to RREGOP and Pension Plan of Management Personnel beneficiaries (PPMP).

The amounts needed to pay the additional benefits 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**

|                                                                                                                     | 2004                              |                                   |                |                   | 2003              |
|---------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------|-------------------|-------------------|
|                                                                                                                     | Employee<br>contributions<br>fund | Employer<br>contributions<br>fund | SPP<br>fund ** | Total             | Total             |
| Participation deposits in individual<br>funds – at fair value<br>(cost 2004: \$37 066 874,<br>2003: \$34 540 259) * | 33 779 692                        |                                   | 409 971        | 34 189 663        | 30 935 810        |
| Demand deposits in the General<br>Fund (advances)                                                                   | (13 258)                          | 3 810                             | (1 216)        | (10 664)          | 17 455            |
| Revenue receivable from individual<br>funds                                                                         | 169 510                           |                                   | 2 057          | 171 567           | 44 504            |
|                                                                                                                     | <u>33 935 944</u>                 | <u>3 810</u>                      | <u>410 812</u> | <u>34 350 566</u> | <u>30 997 769</u> |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**

|                                                                                 | 2004                              |                                   |                | 2003       |
|---------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------|------------|
|                                                                                 | Employee<br>contributions<br>fund | Employer<br>contributions<br>fund | SPP<br>fund ** | Total      |
| * Cost of units                                                                 |                                   |                                   |                | 30 847 397 |
| Cumulated gains realised but not<br>yet distributed by individual<br>portfolios |                                   |                                   |                | 29 509 376 |
|                                                                                 |                                   |                                   |                | 6 219 477  |
|                                                                                 |                                   |                                   |                | 5 030 883  |
|                                                                                 |                                   |                                   |                | 37 066 874 |
|                                                                                 |                                   |                                   |                | 34 540 259 |

\*\* Supplemental pension plans

**5. FINANCIAL INSTRUMENTS**

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

**6. ASSETS AVAILABLE FOR BENEFITS**

|                                      | 2004                      |                           |            | 2003       |
|--------------------------------------|---------------------------|---------------------------|------------|------------|
|                                      | Employee<br>contributions | Employer<br>contributions | Total      | Total      |
| Regular service                      | 33 714 460                | 159 566                   | 33 874 026 | 30 555 389 |
| Transferred service                  |                           | 456                       | 456        | (11)       |
| Pension credits acquired by buy-outs | 228 864                   |                           | 228 864    | 214 571    |
| Supplemental pension plans           | 410 785                   |                           | 410 785    | 386 605    |
|                                      | 34 354 109                | 160 022                   | 34 514 131 | 31 156 554 |

**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 generally recognised accounting policies applicable to the public sector in Canada. 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 this plan during the year and the amortisation of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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**

|                                                                                                           | 2004       | 2003       |
|-----------------------------------------------------------------------------------------------------------|------------|------------|
| <b>For regular service</b>                                                                                |            |            |
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | 20 252 810 | 18 607 294 |
| Increase                                                                                                  |            |            |
| Pension costs                                                                                             |            |            |
| Current service                                                                                           | 1 078 126  | 916 906    |
| Past service                                                                                              | 111 147    | 111 471    |
| Interest                                                                                                  | 1 491 927  | 1 327 674  |
|                                                                                                           | 2 681 200  | 2 356 051  |
| Decrease                                                                                                  |            |            |
| Benefits and administrative expenses paid by<br>the Gouvernement du Québec                                | 782 449    | 632 725    |
| Inter-plan transfers for past service                                                                     | 87 312     | 77 810     |
|                                                                                                           | 869 761    | 710 535    |
| Net increase for the year                                                                                 | 1 811 439  | 1 645 516  |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | 22 064 249 | 20 252 810 |
| <b>Estimated liability recorded as at December 31</b>                                                     | 23 616 063 | 21 772 591 |
| <b>For transferred service</b>                                                                            |            |            |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | 2 280 083  | 2 268 259  |
| <b>Estimated liability recorded as at December 31</b>                                                     | 2 292 397  | 2 296 726  |

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 (\$52 485 billion as at March 31, 2004). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which is slated for the RREGOP.

**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 with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and collective agreements 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 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 \$35 379 billion as at December 31, 2004.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**
**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (cont'd)**
**Financing regular service (cont'd)**

However, in its consolidated financial statements for the year ended as at March 31, 2004, 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 concerning the various actuarial valuations. The auditor general of Québec issued a restriction in his report, to the effect that the Government does not clearly acknowledge having made commitments to finance the plan, while recognizing that its financial statements correctly present the liability, net debt and surplus for the fiscal year ended on March 31, 2004.

Government management employee associations presented a petition to 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 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.

For the year, the Government's contribution for regular service corresponds to 3.12% 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, 1996 and published in October 1998 and reflects the changes made to the RREGOP since its publication. For pension credits acquired by buy-outs, the Government contribution corresponds to 140% of that of employees.

In October 2004, CARRA actuaries submitted an actuarial valuation using data as at December 31, 2002, thereby updating the previous valuation. According to this valuation, the Government contribution to increase the fund it would have accumulated is set at 4.53% of pensionable earnings for regular service as of January 1, 2005.

The interest credited to this fund and the unrealized loss are calculated based on the annual rate of return of the funds of the RREGOP, including the gains made but not yet distributed by the specialized portfolios, entrusted to the Caisse de dépôt et placement du Québec.

**Change in the fund the Government would have created (at fair value)**

|                                                                                             | 2004       | 2003       |
|---------------------------------------------------------------------------------------------|------------|------------|
| Opening balance                                                                             | 32 164 623 | 28 303 762 |
| Increase                                                                                    |            |            |
| Gouvernement du Québec contributions                                                        | 529 505    | 541 858    |
| Interest                                                                                    | 2 896 615  | 1 941 051  |
| Unrealized gain                                                                             | 721 870    | 2 199 429  |
|                                                                                             | 36 312 613 | 32 986 100 |
| Decrease                                                                                    |            |            |
| Payments received – benefits and administrative expenses paid by the Gouvernement du Québec | 807 085    | 693 036    |
| Inter-plan transfers for past service                                                       | 126 321    | 128 441    |
| Closing balance                                                                             | 35 379 207 | 32 164 623 |

The equivalent cost value was \$38 674 425 000 at December 31, 2004 (\$36 181 711 000 at December 31, 2003).

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**8. PENSION OBLIGATIONS**

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the RREGOP 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 probable by its actuaries in the actuarial valuation prepared using data as at December 31, 2002 and presented to the retirement committee on October 15, 2004. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$45 637 793 000 at December 31, 2002 for regular service and additional benefits, and \$349 902 000 at December 1999 for pension credits acquired by buy-out, and at \$2 497 502 110 at December 31, 2000 for years of service transferred from the TPP, CSSP and pension credits granted certain retirees of the health and social services network and at \$301 464 000 at December 31, 2001 for supplemental pension plans and estimated it at \$57 265 009 000 at December 31, 2004.

|                                     | 2004              |                   |                   | 2003              |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                     | Employees         | Employers         | Total             | Total             |
| Regular service                     | 26 736 604        | 27 322 022        | 54 058 626        | 45 600 717        |
| Transferred service                 |                   | 2 519 052         | 2 519 052         | 2 525 195         |
| Pension credits acquired by buy-out | 159 300           | 223 022           | 382 322           | 381 150           |
| Supplemental pension plans          | 305 009           |                   | 305 009           | 304 877           |
|                                     | <u>27 200 913</u> | <u>30 064 096</u> | <u>57 265 009</u> | <u>48 811 939</u> |

The obligations related to benefits for regular service include \$918 286 000 (\$847 749 000 at December 31, 2003) for additional benefits.

**Change in accrued pension obligations**

|                                                                            | 2004              | 2003              |
|----------------------------------------------------------------------------|-------------------|-------------------|
| Actuarial present value of accrued pension benefits<br>- beginning of year | <u>48 811 939</u> | <u>45 356 700</u> |
| Increase                                                                   |                   |                   |
| Actuarial loss                                                             | 1 136 647         |                   |
| Changes in actuarial assumptions                                           | 3 226 856         | 2 767             |
| Corrections to participant data                                            | 16 641            |                   |
| Interest                                                                   | 3 493 568         | 3 083 503         |
| Benefits accrued                                                           | <u>2 316 324</u>  | <u>2 104 482</u>  |
|                                                                            | <u>10 190 036</u> | <u>5 190 752</u>  |
| Decrease                                                                   |                   |                   |
| Actuarial gain                                                             |                   | 28 229            |
| Benefits paid                                                              | 1 727 748         | 1 532 488         |
| Inter-plan transfers                                                       | <u>9 218</u>      | <u>174 796</u>    |
|                                                                            | <u>1 736 966</u>  | <u>1 735 513</u>  |
| Net increase for the year                                                  | <u>8 453 070</u>  | <u>3 455 239</u>  |
| Actuarial present value of accrued pension benefits<br>- end of year       | <u>57 265 009</u> | <u>48 811 939</u> |

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**8. PENSION OBLIGATIONS (cont'd)****Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits regarding regular service and additional benefits were:

|                                         | Valuation for<br>accounting<br>purpose | Valuation for<br>funding<br>purpose |
|-----------------------------------------|----------------------------------------|-------------------------------------|
| Inflation                               | 3.50 %                                 | 2.55 %                              |
| Rate of return net of inflation         | 4.50                                   | 4.50                                |
| Salary escalation rate net of inflation | 1.00                                   | 0.55                                |

Medium-term rates represent the average rates for the period 2003 to 2013 while long-term rates represent rates used as of 2014.

**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 generally accepted accounting principles in Canada for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the RREGOP, the method used by parties of interest to determine employee contribution rates is the overall attained-age actuarial cost method, free of 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 and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service and additional benefits was \$26 587 775 000 as at December 31, 2002 and \$33 714 460 000 as at December 31, 2004, which corresponds to the market value of the employee fund as at each of these dates.

**9. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                 | 2004                              |                                   |               |                  | 2003             |
|-------------------------------------------------|-----------------------------------|-----------------------------------|---------------|------------------|------------------|
|                                                 | Employee<br>contributions<br>fund | Employer<br>contributions<br>fund | SPP<br>fund * | Total            | Total            |
| Net investment income from individual funds     | 1 233 855                         |                                   | 15 259        | 1 249 114        | 1 246 160        |
| Interest on demand deposits in the General Fund | 154                               | (57)                              | 13            | 110              | 38               |
|                                                 | <u>1 234 009</u>                  | <u>(57)</u>                       | <u>15 272</u> | <u>1 249 224</u> | <u>1 246 198</u> |
| Change in fair value                            |                                   |                                   |               |                  |                  |
| Gains (losses) from the sale of investments     | 340 887                           |                                   | 4 216         | 345 103          | (289 684)        |
| Gains realized in the individual portfolios     | 1 174 034                         |                                   | 14 561        | 1 188 595        | 899 396          |
| Unrealized gains                                | 716 617                           |                                   | 10 621        | 727 238          | 2 119 554        |
|                                                 | <u>2 231 538</u>                  |                                   | <u>29 398</u> | <u>2 260 936</u> | <u>2 729 266</u> |

\* Supplemental pension plans.



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out 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, 2002. This estimate was carried out according to contributors' profiles as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. It reveals that, at that date, this value was \$45 637 793 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2002, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA  
Director of Actuarial Services, Development  
and Strategic Planning

Alain Jacob, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, January 24, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired by buy-out for past service according to contributors' profiles as at December 31, 1999 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$349 902 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 1999, CARRIED OUT FOR PENSION CREDITS ACQUIRED BY BUY-OUT OF PAST SERVICE 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Denis Leclerc, FICA, FSA  
Director, Actuarial Service and Development

Jean Dessureault, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, March 28, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out 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 according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$2 496 002 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, January 8, 2003

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

## ACTUARIAL VALUATION

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The Commission's actuaries carried out an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits awarded certain retired social affairs sector employees according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$1 500 110.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2000, CARRIED OUT FOR PENSION CREDITS AWARDED CERTAIN RETIRED SOCIAL AFFAIRS SECTOR EMPLOYEES AND 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA  
Actuary

Québec, January 14, 2003

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****ACTUARIAL VALUATION**

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The Commission's actuaries carried out 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 according to contributors' profiles as at December 31, 2001 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$301 464 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR PENSION CREDITS ACQUIRED FOLLOWING THE TRANSFER OF THE SUPPLEMENTAL PENSION PLANS TO THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AS AT DECEMBER 31, 2001**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation are appropriate and reasonable in the current context;
- 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 carried out 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, 2004

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

## AUDITOR'S REPORT

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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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2003, 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 General of Québec

Québec, March 17, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

PENSION PLANS OF MANAGEMENT PERSONNEL

(S.Q. 2001, c.31)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2004

(in thousands of dollars)

|                                                                           | 2004             | 2003             |
|---------------------------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                                             |                  |                  |
| Funds entrusted to the Caisse de dépôt et placement<br>du Québec (Note 4) |                  |                  |
| Employee contributions fund                                               | 5 529 434        | 4 925 539        |
| Employer contributions fund                                               | 30               | 26               |
|                                                                           | <u>5 529 464</u> | <u>4 925 565</u> |
| Accounts receivable                                                       |                  |                  |
| Employee contributions                                                    | 10 913           | 9 836            |
| Employer contributions                                                    | 579              | 523              |
| Amounts receivable from the Gouvernement du Québec                        | 55 460           | 53 572           |
| Amounts receivable – transfers                                            | 415              | 1 110            |
|                                                                           | <u>67 367</u>    | <u>65 041</u>    |
| Cash on hand                                                              | 823              | 1 901            |
|                                                                           | <u>5 597 654</u> | <u>4 992 507</u> |
| <b>LIABILITIES</b>                                                        |                  |                  |
| Contribution refunds and pensions payable                                 | 3 161            | 5 623            |
| Excess employee contributions to be refunded                              | 1 964            | 1 724            |
| Administrative expenses payable                                           | 647              | 700              |
|                                                                           | <u>5 772</u>     | <u>8 047</u>     |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b><br>(Notes 6 and 8)               | <u>5 591 882</u> | <u>4 984 460</u> |

**GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (Note 7)**

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF MANAGEMENT PERSONNEL**

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                                                                                    | <u>2004</u>      | <u>2003</u>      |
|------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>INCREASE IN NET ASSETS</b>                                                                                                      |                  |                  |
| Employee contributions, including contributions for past service                                                                   | 78 678           | 77 039           |
| Transfer of contributions cumulated by those targeted from the Government and Public Employees Retirement Plan, including interest | 111 375          | 116 593          |
| Contributions of independent employers                                                                                             | 15 472           | 13 018           |
| Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)                                                | 204 735          | 196 367          |
| Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)                                 | 373 277          | 441 236          |
| Interest income                                                                                                                    | <u>233</u>       | <u>133</u>       |
|                                                                                                                                    | 783 770          | 844 386          |
| Amounts received or receivable from the Gouvernement du Québec                                                                     |                  |                  |
| Regular service                                                                                                                    | 163 718          | 186 965          |
| Transferred service                                                                                                                | 74 147           | 63 186           |
| Regular service – Senior officials                                                                                                 | <u>24 348</u>    | <u>23 438</u>    |
|                                                                                                                                    | 262 213          | 273 589          |
|                                                                                                                                    | <u>1 045 983</u> | <u>1 117 975</u> |
| <b>DECREASE IN NET ASSETS</b>                                                                                                      |                  |                  |
| Benefits paid                                                                                                                      |                  |                  |
| Pensions (Note 10)                                                                                                                 | 395 517          | 340 873          |
| Contribution refunds, including interest                                                                                           | 7 118            | 11 214           |
| Transfers, including interest                                                                                                      | 18 579           | 13 724           |
| Administrative expenses                                                                                                            | <u>3 232</u>     | <u>3 801</u>     |
|                                                                                                                                    | 424 446          | 369 612          |
| Amounts deposited in the Consolidated Revenue Fund (Note 3)                                                                        | <u>14 115</u>    | <u>18 925</u>    |
|                                                                                                                                    | 438 561          | 388 537          |
| <b>NET INCREASE FOR THE YEAR</b>                                                                                                   | 607 422          | 729 438          |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>                                                                                           |                  |                  |
| – BEGINNING OF YEAR                                                                                                                | <u>4 984 460</u> | <u>4 255 022</u> |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>                                                                                           |                  |                  |
| – END OF YEAR                                                                                                                      | <u>5 591 882</u> | <u>4 984 460</u> |



## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### PENSION PLANS OF MANAGEMENT PERSONNEL

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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 concerning this plan, please consult the Act respecting the Pension Plan of Management Personnel (R.S.Q., chapter 12.1).

#### a) General information

The PPMP is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to ununionizable public and parapublic sector employees appointed or hired on or after January 1, 2001.

The PPMP also applies to 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 according to the contribution rates set by law and by 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 the administration of the PPMP are assumed by the plan and are divided equally between the employee and employer contribution funds.

#### c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 60, if they have 35 years' pensionable service, or if they are 55 and their age and years of service total 88.

Contributors are entitled to pension benefits without any actuarial reduction at the age of 55.

The pension is obtained by multiplying the average pensionable salary for the three best-paid years by 2% per year of service. It can be added to pension credits granted following the 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 beginning at age 65 in order to coordinate it with that of the Québec Pension Plan.

#### d) Death benefits

If a contributor or a pensioner aged 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%. In the case where there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, where applicable.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### PENSION PLANS OF MANAGEMENT PERSONNEL

#### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

#### 1. DESCRIPTION OF THE PLANS (cont'd)

##### d) Death benefits (cont'd)

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is or 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 or 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 to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under 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

Pension benefits under the PPMP 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. This plan makes provision for additional benefits 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

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

##### 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 Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the market value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of these individual funds are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains 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. These revenues are added to the cost of participation deposits.

#### 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.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### PENSION PLANS OF MANAGEMENT PERSONNEL

#### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

### 3. CAPITALIZATION POLICY (cont'd)

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 respecting the Pension Plan of Management Personnel. Moreover, the parties have agreed to use the overall attained-age actuarial cost method, free of assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 4.5% of the excess 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). This contribution rate is established according to the actuarial valuation carried out, in keeping with section 174 of the Act respecting the Government and Public Employees Retirement Plan, for ununionizable employees according to data as at December 31, 1996 and reflects amendments to the PPMP since the publication of the valuation in October 1998. This rate corresponds to 3.66% of the pensionable earnings in 2004.

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. For 2004, this rate was 7.25% for management personnel from the CSSP and 8.08% for management personnel from the TPP. However, these participants will pay the PPMP rate when it exceeds these maximum amounts.

In October 2004, CARRA actuaries submitted an actuarial valuation based using data as at December 31, 2002, thus updating the previous valuation performed using data at December 31, 1999. Given the results of this valuation and based on a favourable recommendation from the PPMP pension committee, the Government adopted a resolution to set the contribution rate at 7.78% as of January 1, 2005. This rate corresponds to 6.33% of pensionable earnings.

The Act respecting the Pension Plan of Management Personnel does not oblige the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are presented 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 Caisse de dépôt et placement du Québec.

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 Caisse de dépôt et placement du Québec 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 respecting the Pension Plan of Management Personnel.

The amounts needed to pay the additional benefits 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 required 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, 2004

(in thousands of dollars)

**4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                                                                            | 2004                              |                                   |                  | 2003             |
|------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|------------------|------------------|
|                                                                                                            | Employee<br>contributions<br>fund | Employer<br>contributions<br>fund | Total            | Total            |
| Participation deposits in individual funds<br>– at fair value (cost 2004: 5 834 959;<br>2003: 5 399 553) * | 5 496 796                         |                                   | 5 496 796        | 4 925 436        |
| Demand deposits in the General Fund (advances)                                                             | 4                                 | 30                                | 34               | (13 048)         |
| Revenues receivable from individual funds                                                                  | 32 634                            |                                   | 32 634           | 13 177           |
|                                                                                                            | <u>5 529 434</u>                  | <u>30</u>                         | <u>5 529 464</u> | <u>4 925 565</u> |
| * Cost of units                                                                                            |                                   |                                   | 4 923 077        | 4 680 188        |
| Cumulated gains realized, but not yet distributed by<br>individual portfolios                              |                                   |                                   | <u>911 882</u>   | <u>719 365</u>   |
|                                                                                                            |                                   |                                   | <u>5 834 959</u> | <u>5 399 553</u> |

**5. FINANCIAL INSTRUMENTS**

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

**6. NET ASSETS AVAILABLE FOR BENEFITS**

|                     | 2004                      |                           |                  | 2003             |
|---------------------|---------------------------|---------------------------|------------------|------------------|
|                     | Employee<br>contributions | Employer<br>contributions | Total            | Total            |
| Regular service     | 5 370 134                 | 222 187                   | 5 592 321        | 4 984 880        |
| Transferred service |                           | (439)                     | (439)            | (420)            |
|                     | <u>5 370 134</u>          | <u>221 748</u>            | <u>5 591 882</u> | <u>4 984 460</u> |

The net assets available for the service of benefits resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in the RREGOP financial statements, were, respectively, \$228 864 000 and \$410 785 000 as at December 31, 2004 (\$214 571 000 and \$386 605 000 as at December 31, 2003).

**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 generally recognized accounting policies applicable to the public sector in Canada. 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.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLANS OF MANAGEMENT PERSONNEL

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (cont'd)****Liability recorded in the Government's financial statements (cont'd)**

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 according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

**Change in the liability recorded in the Government's financial statements**

|                                                                                                           | 2004      | 2003      |
|-----------------------------------------------------------------------------------------------------------|-----------|-----------|
| <b>For regular service</b>                                                                                |           |           |
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | 3 728 785 | 3 395 617 |
| Increase                                                                                                  |           |           |
| Contributions encashed                                                                                    | 18 981    | 20 975    |
| Pension costs                                                                                             |           |           |
| Current service                                                                                           | 195 290   | 175 603   |
| Past service                                                                                              | 21 046    | 20 039    |
| Interest                                                                                                  | 274 439   | 253 330   |
| Inter-plan transfers for past service                                                                     | 85 740    | 75 594    |
|                                                                                                           | 595 496   | 545 541   |
| Decrease                                                                                                  |           |           |
| Benefits and administrative expenses paid by<br>the Gouvernement du Québec                                | 212 102   | 212 373   |
| Net increase                                                                                              | 383 394   | 333 168   |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | 4 112 179 | 3 728 785 |
| <b>Estimated liability recorded as at December 31</b>                                                     | 4 405 986 | 3 989 649 |
| <b>For transferred service</b>                                                                            |           |           |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | 1 102 233 | 1 080 667 |
| <b>Estimated liability recorded as at December 31</b>                                                     | 1 099 893 | 1 083 183 |

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 (\$52 485 billion as at March 31, 2004). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$1 018 billion of which are slated for the PPMP.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLANS OF MANAGEMENT PERSONNEL

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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 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 PPMP. The fair value of this fund is estimated at \$5 536 billion as at December 31, 2004.

However, in its consolidated financial statements for the year ended as at March 31, 2004, 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, 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 concerning the various actuarial valuations.

Government management employee associations presented a petition to 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.

For the fiscal year, the Government contribution for regular service corresponds to 1.79% of pensionable earnings. The contribution is set according to the actuarial valuation carried out using data as at December 31, 1996 and reflects the changes made to the PPMP since the valuation was published.

In October 2004, CARRA actuaries submitted an actuarial valuation using data as at December 31, 2002, thereby updating the previous valuation. According to this valuation, the Government contribution to increase the fund it would have accumulated is set at 4.47% of pensionable earnings for regular service as of January 1, 2005.

The interest credited to this fund and the unrealized gains are calculated based on 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 Caisse de dépôt et placement du Québec.

**Change in the fund the Government would have created (at fair value)**

|                                                                                             | 2004      | 2003      |
|---------------------------------------------------------------------------------------------|-----------|-----------|
| Opening balance                                                                             | 4 982 802 | 4 372 935 |
| Increase                                                                                    |           |           |
| Gouvernement du Québec contributions                                                        | 29 364    | 31 149    |
| Interest                                                                                    | 445 942   | 271 587   |
| Unrealized gains                                                                            | 137 067   | 372 407   |
| Inter-plan transfers for past service                                                       | 102 271   | 109 961   |
|                                                                                             | 5 697 446 | 5 158 039 |
| Decrease                                                                                    |           |           |
| Payments received – benefits and administrative expenses paid by the Gouvernement du Québec | 160 961   | 175 237   |
| Closing balance                                                                             | 5 536 485 | 4 982 802 |

The equivalent cost value was \$5 933 893 000 at December 2004 (\$5 517 277 000 at December 31, 2003).

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLANS OF MANAGEMENT PERSONNEL

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**8. PENSION OBLIGATIONS**

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on 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 chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation carried out using data as at December 31, 2002 and presented to the retirement committee on October 15, 2004. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$8 636 846 000 at December 31, 2002 for regular service and additional benefits, and at \$1 576 686 000 at December 31, 2000 for years of service transferred from the TPP, CSSP and senior officials. They estimated the actuarial value of all of these benefits at \$11 790 181 000 at December 31, 2004.

|                      | 2004                   |                        |                   | 2003              |
|----------------------|------------------------|------------------------|-------------------|-------------------|
|                      | Employee contributions | Employer contributions | Total             | Total             |
| Management Personnel |                        |                        |                   |                   |
| Regular service      | 5 030 750              | 4 900 114              | 9 930 864         | 8 256 072         |
| Transferred service  |                        | 1 223 118              | 1 223 118         | 1 214 378         |
|                      | <u>5 030 750</u>       | <u>6 123 232</u>       | <u>11 153 982</u> | <u>9 470 450</u>  |
| Senior officials     |                        | 636 199                | 636 199           | 599 121           |
|                      | <u>5 030 750</u>       | <u>6 759 431</u>       | <u>11 790 181</u> | <u>10 069 571</u> |

The obligations related to benefits for regular service include \$223 903 000 \$ (\$214 732 000 at December 31, 2003) for additional benefits.

**Change in accrued pension obligations**

|                                                                         | 2004              | 2003              |
|-------------------------------------------------------------------------|-------------------|-------------------|
| Actuarial present value of accrued pension benefits – beginning of year | <u>10 069 571</u> | <u>9 306 915</u>  |
| Increase                                                                |                   |                   |
| Actuarial loss                                                          | 580 096           |                   |
| Change in actuarial assumptions                                         | 465 976           |                   |
| Corrections to participant data                                         | 7 434             |                   |
| Interest                                                                | 730 051           | 627 337           |
| Benefits accrued                                                        | 355 451           | 331 004           |
| Inter-plan transfers                                                    | 197               | 169 894           |
|                                                                         | <u>2 139 205</u>  | <u>1 128 235</u>  |
| Decrease                                                                |                   |                   |
| Benefits paid                                                           | <u>418 595</u>    | <u>365 579</u>    |
| Net increase for the year                                               | <u>1 720 610</u>  | <u>762 656</u>    |
| Actuarial present value of accrued pension benefits - end of year       | <u>11 790 181</u> | <u>10 069 571</u> |

Benefits obligations resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in RREGOP financial statements, are, respectively, \$382 322 000 and \$305 009 000 at December 31, 2004 (\$381 150 000 and \$304 877 000 at December 31, 2003).

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLANS OF MANAGEMENT PERSONNEL

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**8. PENSION OBLIGATIONS (cont'd)****Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits regarding regular service and additional benefits were:

|                                         | Valuation for<br>accounting<br>purpose | Valuation for<br>funding<br>purpose |
|-----------------------------------------|----------------------------------------|-------------------------------------|
| Inflation                               | 3.50 %                                 | 2.55 %                              |
| Rate of return net of inflation         | 4.50                                   | 4.50                                |
| Salary escalation rate net of inflation | 1.00                                   | 0.55                                |

Medium-term rates represent the average rates for the period 2003 to 2013 and the long-term rates represent the rates used as of 2014.

**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 the accounting principles that are generally accepted in Canada for presenting the actuarial obligation in the financial statements.

In fact, the method used by parties to determine employee contribution rates is the overall attained-age actuarial cost method, free of 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 and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service was \$4 120 525 000 as at December 31, 2002 and \$5 370 134 000 as at December 31, 2004, which corresponds to the market value of the employee fund as at each of these dates.

**9. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                    | 2004                              |                                   |                | 2003           |
|----------------------------------------------------|-----------------------------------|-----------------------------------|----------------|----------------|
|                                                    | Employee<br>contributions<br>fund | Employer<br>contributions<br>fund | Total          | Total          |
| Net investment income from individual funds        | 204 387                           |                                   | 204 387        | 196 026        |
| Interest on demand deposits in<br>the General Fund | 51                                | 297                               | 348            | 341            |
|                                                    | <u>204 438</u>                    | <u>297</u>                        | <u>204 735</u> | <u>196 367</u> |
| Change in fair value                               |                                   |                                   |                |                |
| Gains (losses) from the sale of investments        | 41 809                            |                                   | 41 809         | (106 476)      |
| Gains realized in the individual<br>portfolios     | 195 514                           |                                   | 195 514        | 178 256        |
| Unrealized gains                                   | <u>135 954</u>                    |                                   | <u>135 954</u> | <u>369 456</u> |
|                                                    | <u>373 277</u>                    |                                   | <u>373 277</u> | <u>441 236</u> |



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF MANAGEMENT PERSONNEL

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

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**10. BENEFITS TO CONTRIBUTORS**

For fiscal 2004, \$1 198 594 (2003: \$1 070 871) 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

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out 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, 2002. This estimate was carried out according to contributors' profiles as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. It reveals that, at that date, this value was \$8 636 846 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR MANAGEMENT PERSONNEL AT DECEMBER 31, 2002, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA  
Director of actuarial Services, Development  
and Strategic Planning

Daniel Cantin, FICA, FSA  
Actuary

Jean Dessureault, FICA, FSA  
Actuary

Québec, January 24, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF MANAGEMENT PERSONNEL

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out 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 according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$1 117 073 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN OF MANAGEMENT PERSONNEL AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, January 8, 2003

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF MANAGEMENT PERSONNEL

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Management Personnel regarding specific provisions offered senior officials according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$439 057 000. 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, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

Jean Dessureault, FIICA, FSA  
Actuary

Québec, March 7, 2003

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF MANAGEMENT PERSONNEL

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Management Personnel for supplemental pension plans for senior officials according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$20 556 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

Jean Dessureault, FICA, FSA  
Actuary

Québec, March 7, 2003

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF MANAGEMENT PERSONNEL

## AUDITOR'S REPORT

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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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2004, 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 General of Québec

Québec, March 17, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)  
**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**  
as at December 31, 2004  
(in thousands of dollars)

|                                                                                                     | 2004           |               | 2003           |               |
|-----------------------------------------------------------------------------------------------------|----------------|---------------|----------------|---------------|
| <b>CONTRIBUTIONS</b>                                                                                |                |               |                |               |
| Employee contributions, including contributions for past service                                    |                |               |                |               |
| Teachers Pension Plan                                                                               | 14 313         |               | 18 876         |               |
| Pension Plan of Certain Teachers                                                                    | <u>4 197</u>   | 18 510        | <u>4 054</u>   | 22 930        |
| Contributions of independent employers                                                              |                |               |                |               |
| Teachers Pension Plan                                                                               |                | 53            |                | 100           |
| Interest revenue                                                                                    |                |               |                |               |
| Teachers Pension Plan                                                                               |                | <u>6</u>      |                | <u>10</u>     |
| <b>AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND</b>                                           |                | <u>18 569</u> |                | <u>23 040</u> |
| <b>BENEFITS</b>                                                                                     |                |               |                |               |
| Benefits paid                                                                                       |                |               |                |               |
| Pensions                                                                                            |                |               |                |               |
| Teachers Pension Plans (Note 5)                                                                     | 1 172 206      |               | 1 109 776      |               |
| Pension Plan of Certain Teachers                                                                    | <u>150 904</u> | 1 323 110     | <u>147 396</u> | 1 257 172     |
| Contribution refunds                                                                                |                |               |                |               |
| Teachers Pension Plans                                                                              | 1 070          |               | 1 773          |               |
| Pension Plan of Certain Teachers                                                                    | <u>6</u>       | 1 076         | <u>4</u>       | 1 777         |
| Transfers, including interest                                                                       |                |               |                |               |
| Teachers Pension Plans                                                                              | 4 334          |               | 4 927          |               |
| Pension Plan of Certain Teachers                                                                    | <u>426</u>     | 4 760         | <u>227</u>     | 5 154         |
| Administrative expenses                                                                             |                |               |                |               |
| Teachers Pension Plans                                                                              | 3 694          |               | 3 468          |               |
| Pension Plan of Certain Teachers                                                                    | <u>316</u>     | <u>4 010</u>  | <u>403</u>     | <u>3 871</u>  |
| <b>AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES</b> |                | 1 332 956     |                | 1 267 974     |

**PENSION OBLIGATIONS** (Note 6)

**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 7)

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS  
PENSION PLAN OF CERTAIN TEACHERS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004  
(in thousands of dollars)

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### 1. DESCRIPTION OF THE PLANS

#### Teachers Pension Plans Pension Plan of Certain Teachers

The following description is given as a matter of information. To obtain more complete information concerning these plans, please consult the following:

- the Act respecting the Teachers Pension Plan (R.S.Q., c. R-11);
- the Act respecting the Pension Plan of Certain Teachers (R.S.Q., c. R-9.1);
- the Act respecting pension coverage for certain teachers (R.S.Q., c. P-32.1).

#### a) General information

These pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans offered to:

- teachers appointed or hired by a recognized educational institution prior to July 1, 1973;
- certain categories of teachers who used to belong 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 any actuarial reduction at age 65 for men, or age 60 for women. They are also entitled to such benefits if they are 62 years of age 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 55 years of age and have 32 years' pensionable service.

Contributors are entitled to an actuarially reduced pension if they have 22 years' pensionable service and are 55 years of age for men, or 50 years of age for women. Women are also entitled to such a pension if they have 10 years' pensionable service and are 58.

The pension is calculated by multiplying the average pensionable salary for the five 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 at age 65 to reflect coordination with the Québec Pension Plan.

#### d) Disability pension

The TPP provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service.

#### e) Death benefits

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 to receive 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. In the case where 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 FINANCIAL STATEMENTS (cont'd)  
December 31, 2004  
(in thousands of dollars)

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### 1. DESCRIPTION OF THE PLANS (cont'd)

#### e) Death 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 or she would have been entitled to receive or that the person 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 to receive 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 to receive 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 to receive 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 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 to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service. If they have 10 or more years' pensionable service and are older than 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 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 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 makes provision for paying 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

The financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, the statement of assets available for benefit service has not been presented.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS  
PENSION PLAN OF CERTAIN TEACHERS  
NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004  
(in thousands of dollars)

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### 2. ACCOUNTING POLICIES (cont'd)

#### Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

### 3. CAPITALIZATION POLICY

For the TPP, the employee and independent employer contributions for the fiscal year were 6.28% 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 8.08% 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 5.35% (7.06% as from January 1<sup>st</sup>, 2005) of the surplus of pensionable earnings over 35% of the maximum pensionable earnings within the meaning of the Act respecting the Québec Pension Plan.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act respecting the Teachers Pension Plan and the 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, any benefits paid or payable are deducted from these amounts.

As at December 31, 2004, an amount of \$4 142 000 (\$3 847 000 as at December 31, 2003) 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 2004, \$3 202 262 \$ (2003: \$3 061 028) was paid under the Supplemental Pension Plan for Teachers and is included in the item Pensions.

### 6. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on services 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 of the Government and Public Employees Retirement Plan, for the PPCT, on the basis of data at December 31, 1999 and presented to the pension committee on November 7, 2001 and, for the TPP, on the basis of data at December 31, 2002 and presented to the pension committee on October 15, 2004. Changes were made to certain assumption to reflect participants' profiles and specific plan provisions. 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 TPP at \$14 318 272 000 as at December 31, 2002 and those of the PPCT at \$1 672 492 000 as at December 31, 2000, and estimated these amounts at \$14 017 547 000 and \$1 592 135 000 as at December 31, 2004.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS  
PENSION PLAN OF CERTAIN TEACHERS  
NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004  
(in thousands of dollars)

**6. PENSION OBLIGATIONS (cont'd)****Change in pension obligations**

|                                                                            | 2004       | 2003       |
|----------------------------------------------------------------------------|------------|------------|
| <b>Teachers Pension Plan</b>                                               |            |            |
| Actuarial present value of accrued pension benefits<br>– beginning of year | 13 656 496 | 13 826 352 |
| Increase                                                                   |            |            |
| Actuarial loss                                                             | 182 981    |            |
| Change in actuarial assumptions                                            | 427 432    |            |
| Interest                                                                   | 890 213    | 897 418    |
| Benefits accrued                                                           | 44 356     | 53 940     |
|                                                                            | 1 544 982  | 951 358    |
| Decrease                                                                   |            |            |
| Corrections to participant data                                            | 4 703      |            |
| Benefits paid                                                              | 1 177 610  | 1 116 476  |
| Inter-plan transfers for past service                                      | 1 618      | 4 738      |
|                                                                            | 1 183 931  | 1 121 214  |
| Net increase (decrease) for the year                                       | 361 051    | (169 856)  |
| Actuarial present value of accrued pension benefits<br>– end of year       | 14 017 547 | 13 656 496 |
| <b>Pension Plan of Certain Teachers</b>                                    |            |            |
| Actuarial present value of accrued pension benefits<br>– beginning of year | 1 624 780  | 1 651 315  |
| Increase                                                                   |            |            |
| Interest                                                                   | 108 563    | 106 636    |
| Benefits accrued                                                           | 3 583      | 4 538      |
| Inter-plan transfers for pas service                                       | 6 545      | 9 918      |
|                                                                            | 118 691    | 121 092    |
| Decrease                                                                   |            |            |
| Benefits paid                                                              | 151 336    | 147 627    |
| Net decrease for the year                                                  | 32 645     | 26 535     |
| Actuarial present value of accrued pension benefits<br>– end of year       | 1 592 135  | 1 624 780  |
|                                                                            | 15 609 682 | 15 281 276 |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

TEACHERS PENSION PLANS  
PENSION PLAN OF CERTAIN TEACHERS  
NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004  
(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:

|                                         | Valuation for accounting |        | Valuation for funding purpose |        |
|-----------------------------------------|--------------------------|--------|-------------------------------|--------|
|                                         | TPP                      | PPCT   | TPP                           | PPCT   |
| Inflation                               | 3.50 %                   | 4.00 % | 2.55 %                        | 2.75 % |
| Rate of return net of inflation         | 4.50                     | 4.75   | 4.50                          | 4.75   |
| Salary escalation rate net of inflation | 1.00                     | 1.25   | 0.55                          | 0.60   |

For the PPCT, the medium-term rates are the medium-term rates for 2000 to 2010 and, for the TPP, the medium-term rates for 2003 to 2013. The long-term rates are those used as of 2011 for the PPCT and 2014 for 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 generally recognized accounting policies applicable to the public sector in Canada. 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 gains or losses.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based of services and the most probable assumptions determined by the Government.

**Change in the liability recorded in the Government's financial statements**

|                                                                                                           | 2004              | 2003              |
|-----------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | 14 302 204        | 14 363 869        |
| Increase                                                                                                  |                   |                   |
| Contributions recovered                                                                                   | 22 101            | 27 558            |
| Pension costs                                                                                             |                   |                   |
| Current service                                                                                           | 42 257            | 54 144            |
| Past service                                                                                              | 60 628            | 60 628            |
| Interest                                                                                                  | 1 003 112         | 1 013 211         |
| Inter-plan transfers for past service                                                                     | 2 963             | 11 375            |
|                                                                                                           | 1 131 061         | 1 166 916         |
| Decrease                                                                                                  |                   |                   |
| Benefits and administrative expenses paid by the<br>Gouvernement du Québec                                | 1 285 017         | 1 228 581         |
| Net increase for the year                                                                                 | 153 956           | 61 665            |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | 14 148 248        | 14 302 204        |
| <b>Estimated liability recorded as at December 31</b>                                                     | <b>13 964 445</b> | <b>14 190 145</b> |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

TEACHERS PENSION PLANS

PENSION PLAN OF CERTAIN TEACHERS

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

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**7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)****Change in the 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 (\$52 485 billion as at March 31, 2004). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 018 billion for the Pension Plan of Management Personnel.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****TEACHERS PENSION PLANS****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out an actuarial valuation of the Teachers Pension Plans according to the contributors' profile as at December 31, 2002, in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statement. The valuation revealed that, at that date, the value was \$14 318 272 000.

**ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE TEACHERS PENSION PLANS AS AT DECEMBER 31, 2002, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, January 25, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLAN OF CERTAIN TEACHERS****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Certain Teachers according to the contributors' profile as at December 31, 2000, in order to determine the value of the obligations resulting from the Plan to be recorded in the financial statement. The valuation revealed that, at that date, the value was \$1 672 492 000.

**ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE PENSION PLAN OF CERTAIN TEACHERS AS AT  
DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, December 20, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****TEACHERS PENSION PLANS  
PENSION PLAN OF CERTAIN TEACHERS  
AUDITOR'S REPORT**

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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, 2004. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall 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, 2004 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,  
Auditor General of Québec

Québec, March 19, 2005



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)  
**CIVIL SERVICE SUPERANNUATION PLANS**  
(R.S.Q., c. R-12)  
**CONTRIBUTIONS AND BENEFITS**  
as at December 31, 2004  
(in thousands of dollars)

|                                                                                                             | <u>2004</u>    | <u>2003</u>    |
|-------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>CONTRIBUTIONS</b>                                                                                        |                |                |
| Employee contributions, including contributions<br>for past service                                         | 5 876          | 6 980          |
| Contributions of autonomous employers                                                                       | <u>1 485</u>   | <u>1 815</u>   |
| <b>AMOUNTS DEPOSITED IN THE CONSOLIDATED<br/>REVENUE FUND</b>                                               | <u>7 361</u>   | <u>8 795</u>   |
| <b>BENEFITS</b>                                                                                             |                |                |
| Benefits paid                                                                                               |                |                |
| Pensions (Note 4)                                                                                           | 449 131        | 439 410        |
| Contribution refunds                                                                                        | 311            | 386            |
| Transfers, including interest                                                                               | 2 055          | 2 796          |
| Administrative expenses                                                                                     | <u>1 306</u>   | <u>1 575</u>   |
| <b>AMOUNTS TAKEN FROM THE CONSOLIDATED<br/>REVENUE FUND TO PAY BENEFITS AND<br/>ADMINISTRATIVE EXPENSES</b> | <u>452 803</u> | <u>444 167</u> |

**PENSION OBLIGATIONS** (Note 5)

**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 6)

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****CIVIL SERVICE SUPERANNUATION PLANS****NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(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 as a matter of information. To obtain 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 administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan 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 any actuarial reduction:

- at age 65;
- at age 62 for men, or age 60 for women, if they have 10 years' pensionable service;
- if they have 35 years' pensionable service;
- at age 55 if they have 32 years' pensionable service; or
- at age 60 if 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 calculated by multiplying the average pensionable salary of the five best-paid years by 2% per year of service. The pension is reduced beginning at age 65 in order to coordinate with the Québec Pension Plan.

**d) Disability pension**

The CSSP provides for payment of a disability pension to an employee who has been disabled. The pension is calculated as a regular pension according to the number of years of pensionable service accumulated toward the plan.

**e) Death 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 to receive 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. In the case where 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

#### 1. DESCRIPTION OF THE PLANS (cont'd)

##### g) Indexation of benefits

Pension benefits under the CSSP 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.

##### Supplemental Pension Plan for Civil Servants

The Supplemental Pension Plan for Civil Servants (C.T. 195706 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the CSSP.

It makes provision for paying 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

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the CSSP has no assets, the statement of assets available for benefit service has not been presented.

##### 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 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 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 2004, \$137 681 (\$110 412 in 2003) was paid under the Supplemental Pension Plan for Civil Servants and is included in the item Pension.

#### 5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on services 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 valuation of the Government and Public Employees Retirement Plan carried out 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 at \$5 450 635 000 as at December 31, 2002 and estimated it at \$5 320 855 000 as at December 31, 2004.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****CIVIL SERVICE SUPERANNUATION PLANS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**5. PENSION OBLIGATIONS (cont'd)****Change in pension obligations**

|                                                                            | 2004      | 2003      |
|----------------------------------------------------------------------------|-----------|-----------|
| Actuarial present value of accrued pension benefits<br>– beginning of year | 5 276 654 | 5 350 494 |
| Increase                                                                   |           |           |
| Actuarial loss                                                             | 13 583    |           |
| Change in actuarial assumptions                                            | 135 344   |           |
| Interest                                                                   | 337 911   | 346 957   |
| Benefits accrued                                                           | 20 118    | 21 795    |
|                                                                            | 506 956   | 368 752   |
| Decrease                                                                   |           |           |
| Corrections to participant data                                            | 11 258    |           |
| Benefits paid                                                              | 451 497   | 442 592   |
|                                                                            | 462 755   | 442 592   |
| Net increase (decrease) for the year                                       | 44 201    | (73 840)  |
| Actuarial present value of accrued pension benefits<br>– end of year       | 5 320 855 | 5 276 654 |

**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Valuation for<br>accounting<br>purpose | Valuation<br>for funding<br>purpose |
|-----------------------------------------|----------------------------------------|-------------------------------------|
| Inflation                               | 3.50 %                                 | 2.55 %                              |
| Rate of return net of inflation         | 4.50                                   | 4.50                                |
| Salary escalation rate net of inflation | 1.00                                   | 0.55                                |

The medium-term rates represent the average rates for the period 2003 to 2013, while the long-term rates represent the rates used as of 2014. The assumption related to yield 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 Government and Public Employees Retirement Plan (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 generally recognized accounting policies applicable to the public sector in Canada. 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 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 according to the projected benefit method prorated on 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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**

|                                                                                                           | <u>2004</u>             | <u>2003</u>             |
|-----------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | <u>5 016 901</u>        | <u>5 067 369</u>        |
| Increase                                                                                                  |                         |                         |
| Contributions recovered                                                                                   | 5 453                   | 7 539                   |
| Pension costs                                                                                             |                         |                         |
| Current service                                                                                           | 13 465                  | 17 467                  |
| Past service                                                                                              | 15 450                  | 15 450                  |
| Interest                                                                                                  | <u>346 669</u>          | <u>351 295</u>          |
|                                                                                                           | -----                   | -----                   |
|                                                                                                           | 381 037                 | 391 751                 |
| Decrease                                                                                                  |                         |                         |
| Benefits and administrative expenses paid by the<br>Gouvernement du Québec                                | -----                   | -----                   |
|                                                                                                           | 446 339                 | 442 219                 |
| Net decrease for the year                                                                                 | <u>65 302</u>           | <u>50 468</u>           |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | <u><u>4 951 599</u></u> | <u><u>5 016 901</u></u> |
| <b>Estimated liability recorded as at December 31</b>                                                     | <u><u>4 891 406</u></u> | <u><u>4 973 064</u></u> |

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 (\$52 485 billion as at March 31, 2004). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which are slated for the Government and Public Employees Retirement Plan and \$1 018 billion for the Pension Plan of Management Personnel.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****CIVIL SERVICE SUPERANNUATION PLANS****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out an actuarial valuation of the Civil Service Superannuation Plan according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$5 450 635 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE CIVIL SERVICE SUPERANNUATION PLAN AS AT DECEMBER 31, 2002 CARRIED OUT 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 employ 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, January 25, 2005

**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, 2004. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall 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, 2004 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 General of Québec

Québec, March 15, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2004

(in thousands of dollars)

|                                                                                                     | 2004   |               | 2003   |               |
|-----------------------------------------------------------------------------------------------------|--------|---------------|--------|---------------|
| <b>CONTRIBUTIONS</b>                                                                                |        |               |        |               |
| Employee contributions, including contributions for past service                                    |        |               |        |               |
| Pension plans offered to judges of the Québec Court and certain municipal courts                    |        | 1 890         |        | 1 845         |
| Municipalities' contributions, including contributions for previous service                         |        |               |        |               |
| Pension plans offered to judges of the Québec Court and certain municipal courts                    | 107    |               | 105    |               |
| Supplemental pension plans offered to judges of the Québec Court and certain municipal courts       | 143    | 250           | 136    | 241           |
| <b>AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND</b>                                           |        | <u>2 140</u>  |        | <u>2 086</u>  |
| <b>BENEFITS</b>                                                                                     |        |               |        |               |
| Benefits paid                                                                                       |        |               |        |               |
| Pensions                                                                                            |        |               |        |               |
| Pension plans offered to judges of the Québec Court and certain municipal courts                    | 15 521 |               | 15 132 |               |
| Supplemental pension plans offered to judges of the Québec Court and certain municipal courts       | 3 047  |               | 2 585  |               |
| Pension Plan of the Public Protector and his/her assistant                                          | 250    | 18 818        | 250    | 17 967        |
| Administrative expenses                                                                             |        |               |        |               |
| Pension plans offered to judges of the Québec Court and certain municipal courts                    |        | 34            |        | 44            |
| <b>AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES</b> |        | <u>18 852</u> |        | <u>18 011</u> |

**PENSION OBLIGATIONS** (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 5)

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources



## 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 ASSISTANT

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(in thousands of dollars)

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### 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 as a matter of information. To obtain more complete information concerning these plans, please consult Parts V.1 to V.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 pension plans and supplemental pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans 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 (Q.S. 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 benefit obligations.

For the other plans, benefits are entirely funded by the Government.

#### c) Retirement benefits

PPJCQM contributors acquire the right to a retirement pension without an actuarial reduction at age 65 or when the sum of their age and years of service total 80 and they acquire the right to a reduced pension when they have accumulated 21.7 years of service. According to the provisions of the PPCJQM, the retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 1.5% per year of service. Contributors acquire the right 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 acquired the right to a retirement pension without the actuarial reduction at age 65 or 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 acquire the right 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.

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.

#### d) Disability benefits

These pension plans can 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.

## 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 ASSISTANT

#### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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)**

#### **e) Death benefits**

If a contributor or a pensioner under the PPJCQM or the PPCBJB died, 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 to receive 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 to receive 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 the 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**

Pension benefits under the PPJCQM and PPCBJB and supplemental benefits are fully indexed to the cost of living increase for the portion of the pension which corresponds to vested service prior to July 1, 1990, and are partially indexed for the portion of the pension which corresponds to vested service after June 30, 1990. Pension benefits under the PPCJBM are fully indexed if contributors opt for such indexation by investing the required amounts.

#### **Pension plan of the Public Protector and his/her assistant**

The following description is given as a matter of information. To obtain 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 assistant;

#### **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 ASSISTANT

#### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, the statement of assets available for benefit service has not been presented.

#### 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 since January 1, 1990. The municipalities make contributions corresponding to 27.98% of the payroll of the judges in question (11.91% for the basic plan and 16.07% for supplementary benefits).

The Pension plan of the Public Protectors and his/her assistant 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 the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on 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 valuation of the Government and Public Employees Retirement Plan carried out using data as at December 31, 1999 and tabled with the retirement committee on November 7, 2001. 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 \$263 287 000 as at December 31, 2000 for the pension plans of the judges of the Québec Court and certain municipal courts and at \$3 092 861 as at December 31, 2004 for the Pension Plan of the Public Protector and his/her Assistant. For all of these plans, the actuarial value of accrued benefits is estimated at \$318 103 000 as at December 31, 2004.

**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 ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**4. PENSION OBLIGATIONS (cont'd)**
**Change in pension obligations**

|                                                                            | 2004    | 2003    |
|----------------------------------------------------------------------------|---------|---------|
| Actuarial present value of accrued pension benefits<br>– beginning of year | 304 437 | 291 769 |
| Increase                                                                   |         |         |
| Actuarial loss                                                             | 44      |         |
| Change to actuarial assumptions                                            | 212     |         |
| Interest                                                                   | 21 043  | 19 470  |
| Benefits accrued                                                           | 11 185  | 11 165  |
|                                                                            | 32 484  | 30 635  |
| Decrease                                                                   |         |         |
| Benefits paid                                                              | 18 818  | 17 967  |
| Net increase for the year                                                  | 13 666  | 12 668  |
| Actuarial present value of accrued pension benefits<br>– end of year       | 318 103 | 304 437 |

**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Long-term<br>rates | Medium-term<br>rates |
|-----------------------------------------|--------------------|----------------------|
| Inflation                               | 4.00 %             | 2.75 %               |
| Rate of return net of inflation         | 4.75               | 4.75                 |
| Salary escalation rate net of inflation | 1.25               | 1.20                 |

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield 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 generally recognized accounting policies applicable to the public sector in Canada. 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 correspond to the sum of the cost of accrued benefits, changes to the plans during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

**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 ASSISTANT

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)**

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.

**Change in the liability recorded in the Government's financial statements**

|                                                                                                           | <u>2004</u>           | <u>2003</u>           |
|-----------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | <u>290 395</u>        | <u>278 134</u>        |
| Increase                                                                                                  |                       |                       |
| Contributions recovered                                                                                   | 2 505                 | 2 202                 |
| Pension costs                                                                                             |                       |                       |
| Current service                                                                                           | 9 672                 | 8 652                 |
| Past service                                                                                              | (325)                 | (325)                 |
| Interest                                                                                                  | <u>19 343</u>         | <u>18 508</u>         |
|                                                                                                           | 31 195                | 29 037                |
| Decrease                                                                                                  |                       |                       |
| Benefits and administrative expenses paid by the<br>Gouvernement du Québec                                | <u>17 842</u>         | <u>16 776</u>         |
| Net increase                                                                                              | <u>13 353</u>         | <u>12 261</u>         |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | <u>303 748</u>        | <u>290 395</u>        |
| <b>Estimated liability recorded as at December 31</b>                                                     | <u><u>313 392</u></u> | <u><u>299 479</u></u> |

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, 2004: \$52 485 billion). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 018 billion for the Pension Plan of Management Personnel.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out 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) according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$197 130 000. For the actuarial valuation, the Pension plan of judges of the Québec court designates all plans.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AS AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, December 20, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out 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 according to contributors' profiles as at December 31, 2000 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$66 157 000. For the actuarial valuation, the Pension plan of judges of the Québec court designates all plans.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AS AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, December 20, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Public Protector and his/her assistant according to contributors' profiles as at December 31, 2004 in order to determine the value of the obligations resulting from the Plans to be recorded in the financial statements. The valuation reveals that, at that date, this value was \$3 092 861.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT AS AT DECEMBER 31, 2004, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA  
Actuary

Québec, February 23, 2005



**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 ASSISTANT  
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, 2004. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2004, 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 General of Québec

Québec, March 19, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****CONTRIBUTIONS AND BENEFITS**

for the year ended December 31, 2004

(in thousands of dollars)

|                                                                                                             | <u>2004</u>           | <u>2003</u>           |
|-------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>CONTRIBUTIONS</b>                                                                                        |                       |                       |
| Employee contributions, including contributions<br>for past service                                         | 21 663                | 21 305                |
| Contributions of independent employers                                                                      | 166                   | 156                   |
| Transfers, including interest (Note 4)                                                                      | 33 175                | 69 842                |
| Interest income                                                                                             | <u>64</u>             | <u>37</u>             |
| <b>AMOUNTS DEPOSITED IN THE CONSOLIDATED<br/>REVENUE FUND</b>                                               | <u><u>55 068</u></u>  | <u><u>91 340</u></u>  |
| <b>BENEFITS</b>                                                                                             |                       |                       |
| Benefits paid                                                                                               |                       |                       |
| Pensions                                                                                                    | 141 391               | 132 442               |
| Special pension                                                                                             | 25                    | 31                    |
| Contribution refunds                                                                                        | 480                   | 184                   |
| Transfers, including interest                                                                               | 2 841                 | 5 108                 |
| Administrative expenses                                                                                     | <u>403</u>            | <u>687</u>            |
| <b>AMOUNTS TAKEN FROM THE CONSOLIDATED<br/>REVENUE FUND TO PAY BENEFITS AND<br/>ADMINISTRATIVE EXPENSES</b> | <u><u>145 140</u></u> | <u><u>138 452</u></u> |

**PENSION OBLIGATIONS (Note 5)****LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)**

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(in thousands of dollars)

## 1. DESCRIPTION OF THE SPMSQ AND THE SPECIAL PENSION

### Superannuation plan for the members of the Sûreté du Québec (SPMSQ)

The description of the SPMSQ is given as a matter of information. To obtain more complete information concerning this plan, please consult the 1992 agreement between the Gouvernement du Québec and the Association des policiers provinciaux du Québec as well as the letter of agreement endorsed by the parties in 2001 for the period January 1, 1992 to June 30, 2002.

#### a) General information

The SPMSQ is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan offered to eligible members of the Sûreté du Québec.

#### b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by the agreement, and by the Government, which assumes the remaining pension obligations.

#### c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction 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.

Contributors must retire at age 65 or if they have 35 years' pensionable service.

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 salary for the 48 best-paid months by 2.3% per year of service for the first 30 years of service and by 0.5% per year for the thirty-first and thirty-second years; and
- for service credited after December 31, 1991, the amount obtained by multiplying the average pensionable salary for the 36 best-paid months 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 to coordinate it with that of the Québec Pension Plan.

#### d) Death benefits

If a person dies while not on duty and contributed to the SPMSQ for at least 10 years, the surviving spouse is entitled to a pension equal to 50% 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 to receive a pension equal to 10% of this pension, 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.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**1. DESCRIPTION OF THE PLANS (cont'd)****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 two years' service.

In all other cases, 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 as soon as 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.

**Special pension**

In keeping with an agreement between the Gouvernement du Québec and the Association des policiers provinciaux du Québec, benefits payable on death of a member of the Sûreté du Québec on duty before he/she is eligible for a retirement pension under the SPMSQ, or before he/she is 60, correspond to 80% of the wage he/she would have received up to the first of these dates. These benefits are payable to the member's spouse or, if there is no spouse, to his/her dependent children.

**2. ACCOUNTING POLICIES**

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the SPMSQ has no assets, the statement of assets available for benefit service has not been presented.

**Employee and employer contributions**

Adjustments to employee and employer contributions are recorded when the amounts are determined.

**3. CAPITALIZATION POLICY**

The employee and independent employer 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.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the SPMSQ. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

**4. 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 Association des policiers provinciaux du Québec 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. As at December 31, 2004, \$2 964 000 (\$9 430 000 as at December 31, 2003) is receivable with regard to a transfer of sums related to the recognition of these years of service. In keeping with the capitalization policy, this amount will be paid into the Consolidated Revenue Fund.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**
**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**5. PENSION OBLIGATIONS**

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on 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 as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. 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 \$2 467 509 000 as at December 31, 2000 and estimated it at \$2 980 294 000 as at December 31, 2004.

**Change in pension obligations**

|                                                                            | 2004      | 2003      |
|----------------------------------------------------------------------------|-----------|-----------|
| Actuarial present value of accrued pension benefits<br>– beginning of year | 2 833 254 | 2 660 820 |
| Increase                                                                   |           |           |
| Interest                                                                   | 196 593   | 179 384   |
| Benefits accrued                                                           | 95 159    | 130 784   |
|                                                                            | 291 752   | 310 168   |
| Decrease                                                                   |           |           |
| Benefits paid                                                              | 144 712   | 137 734   |
| Net increase for the year                                                  | 147 040   | 172 434   |
| Actuarial present value of accrued pension benefits<br>– end of year       | 2 980 294 | 2 833 254 |

**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Valuation for<br>accounting<br>purposes | Valuation<br>for funding<br>purpose |
|-----------------------------------------|-----------------------------------------|-------------------------------------|
| Inflation                               | 4.00 %                                  | 2.75 %                              |
| Rate of return net of inflation         | 4.75                                    | 4.75                                |
| Salary escalation rate net of inflation | 1.25                                    | 0.70                                |

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield 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 AND SPECIAL PENSION****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**6. 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 generally recognized accounting policies applicable to the public sector in Canada. 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 SPMSQ in the Consolidated Revenue Fund.

The pension costs for the SPMSQ correspond to the sum of the cost of accrued benefits, changes to this plan during the year and amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated according to the projected benefit method prorated on service and the most probable assumptions determined by the Government.

**Change in the liability recorded in the Government's financial statements**

|                                                                                                           | <u>2004</u>             | <u>2003</u>             |
|-----------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | <u>2 581 343</u>        | <u>2 483 632</u>        |
| Increase                                                                                                  |                         |                         |
| Contributions recovered, including transfers                                                              | 93 570                  | 22 652                  |
| Pension costs                                                                                             |                         |                         |
| Current service                                                                                           | 42 120                  | 36 599                  |
| Past service                                                                                              | 1 623                   | 1 623                   |
| Interest                                                                                                  | <u>178 620</u>          | <u>169 792</u>          |
|                                                                                                           | 315 933                 | 230 666                 |
| Decrease                                                                                                  |                         |                         |
| Benefits and administrative expenses paid by the<br>Gouvernement du Québec                                | <u>139 840</u>          | <u>132 955</u>          |
| Net increase for the year                                                                                 | <u>176 093</u>          | <u>97 711</u>           |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | <u><u>2 757 436</u></u> | <u><u>2 581 343</u></u> |
| <b>Estimated liability recorded as at December 31</b>                                                     | <u><u>2 854 675</u></u> | <u><u>2 712 277</u></u> |

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, 2004: \$52 485 billion). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 018 billion for the Pension Plan of Management Personnel.

**7. CONTINGENCIES**

A contributor filed a grievance in respect of the average pensionable salary used by CARRA to calculate the amount of pension benefits. CARRA is unable to determine the chances of the contributor's winning the case and, if so, the attendant financial impacts.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out an actuarial valuation of the Superannuation Plan for the Members of the Sûreté du Québec according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$2 467 509 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, March 28, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AND SPECIAL PENSION

## AUDITOR'S REPORT

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To the National Assembly

I have audited the statement of contributions and benefits of the Superannuation Plan for the Members of the Sûreté du Québec and special pension for the year ended December 31, 2004. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan as for the year ended December 31, 2004, 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 General of Québec

Québec, March 19, 2005



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)  
**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES**  
(R.S.Q., c. R-9.2)  
**CONTRIBUTIONS AND BENEFITS**  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                                                                 | <u>2004</u>   | <u>2003</u>   |
|-----------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>CONTRIBUTIONS</b>                                                                                            |               |               |
| Employee contributions, including contributions<br>for past service                                             | 3 755         | 3 829         |
| Transfers, including interest                                                                                   | <u>4 388</u>  | <u>47</u>     |
| <b>AMOUNTS DEPOSITED IN THE CONSOLIDATED<br/>REVENUE FUND</b>                                                   | <u>8 143</u>  | <u>3 876</u>  |
| <b>BENEFITS</b>                                                                                                 |               |               |
| Benefits paid                                                                                                   |               |               |
| Pensions                                                                                                        | 27 924        | 24 577        |
| Contribution refunds and transfers,<br>including interest                                                       | 713           | 968           |
| Administrative expenses                                                                                         | <u>881</u>    | <u>670</u>    |
| <b>AMOUNTS TAKEN FROM THE CONSOLIDATED<br/>REVENUE FUND TO PAY BENEFITS AND<br/>AND ADMINISTRATIVE EXPENSES</b> | <u>29 518</u> | <u>26 215</u> |

**GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (Note 4)**  
**PENSION OBLIGATIONS (Note 5)**

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(in thousands of dollars)

**1. DESCRIPTION OF THE PPPOCS**

The description of the Pension Plan for Peace Officers in Correctional Services (PPPOCS) is given as a matter of information. To obtain more complete information concerning this plan, please consult 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 administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan 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 supplemental benefits resulting from the revaluation of certain years of service that are funded entirely by contributors.

The PPPOCS's administrative expenses are assumed by the Government.

**c) Retirement benefits**

Contributors are entitled to benefits without any 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 salary for the five 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, supplemental benefits 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 benefits payable until age 65 can be added to the pension.

**d) Death benefits**

If a person dies while contributing to the PPPOCS and was eligible for an immediate pension plan or was receiving a retirement pension, the 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 deceased had chosen to receive a pension reduced by 2%. Each dependent child is eligible to receive 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 and no pension is paid to the children, the contributions are reimbursed with interest to the heirs minus any benefit paid.

If a contributor dies before being eligible for a pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

**e) Severance benefits**

Persons who cease to contribute to the PPPOCS before being eligible to receive an immediate pension are entitled to the 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 the age of 65.

**f) Indexation of benefits**

Pension benefits under the PPPOCS 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

## 2. ACCOUNTING POLICIES

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the PPOCS has no assets, the statement of assets available for benefit service has not been presented.

### 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, free of assets.

The employee contribution for the fiscal year is 1% 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.

Since January 1, 2000, an additional employee contribution of 3% is deducted to constitute a fund for financing supplemental benefits. 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 presented 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 generally recognized accounting policies applicable to the public sector in Canada. 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 gains or losses.

The pension cost is evaluated according to the projected benefit method prorated on 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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**

|                                                                                                           | 2004           | 2003           |
|-----------------------------------------------------------------------------------------------------------|----------------|----------------|
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | 605 187        | 618 338        |
| Increase                                                                                                  |                |                |
| Contributions recovered (reimbursed)                                                                      | 3 963          | (4 657)        |
| Pension costs                                                                                             |                |                |
| Current service                                                                                           |                | 3 200          |
| Changes made to the PPPOCS                                                                                | 8 885          | 7 997          |
| Past service                                                                                              | 481            | 105            |
| Interest                                                                                                  | 37 051         | 4 191          |
|                                                                                                           | 50 380         | 10 836         |
| Decrease                                                                                                  |                |                |
| Benefits and administrative expenses paid by the<br>Gouvernement du Québec                                | 27 513         | 23 987         |
| Net increase (decrease) for the year                                                                      | 22 867         | (13 151)       |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | 628 054        | 605 187        |
| <b>Estimated liability recorded as at December 31</b>                                                     | <b>650 733</b> | <b>622 044</b> |

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, 2004: \$52 485 billion). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 018 billion for the Pension Plan of Management Personnel.

**Financing the PPPOCS**

In keeping with the Act respecting the Pension Plan for Peace Officers in Correctional Services, CARRA actuaries must conduct an actuarial valuation every three years with respect to financing the PPPOCS. In this valuation, the actuaries take legislative provisions and collective agreements into account by using the valuation method the parties agree to and determine 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. However, the Act does not oblige the Government to contribute to the PPPOCS. The value of this fund was estimated at \$779 253 000 as at December 31, 2004.

However, in its consolidated financial statements for the year ended as at March 31, 2004, 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 the plan includes 46% of total benefits determined using

# COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

#### 4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (cont'd)

##### Financing the PPPOCS (cont'd)

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, paid 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 concerning the various actuarial valuations.

Government management employee associations presented a petition to 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 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.

##### Change in the fund the parties would have created

|                                                    | 2004                |                       |         | 2003    |
|----------------------------------------------------|---------------------|-----------------------|---------|---------|
|                                                    | Employee<br>portion | Government<br>portion | Total   | Total   |
| Opening balance                                    | 400 037             | 332 678               | 732 715 | 713 043 |
| Increase                                           |                     |                       |         |         |
| Employee contributions and other amounts<br>cashed | 1 117               | 65                    | 1 182   | 961     |
| Additional employee contributions                  | 2 731               |                       | 2 731   | 2 741   |
| Gouvernement du Québec contributions               |                     |                       |         |         |
| Current service                                    |                     | 1 775                 | 1 775   | 1 621   |
| Interest                                           | 31 714              | 26 300                | 58 014  | 40 410  |
| Interplan transfers for past service               | 6 819               | 5 809                 | 12 628  |         |
|                                                    | 442 418             | 366 627               | 809 045 | 758 776 |
| Decrease                                           |                     |                       |         |         |
| Payment of benefits to contributors                | 16 006              | 12 905                | 28 911  | 25 391  |
| Administrative expenses                            |                     | 881                   | 881     | 670     |
| Closing balance                                    | 426 412             | 352 841               | 779 253 | 732 715 |

The contributors' portion includes \$11 936 000 at December 31, 2004 (\$9 240 000 at December 31, 2003) for funding additional benefits.

#### 5. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPPOCS administrator.

The assumptions used by CARRA are those deemed the most probable by its actuaries in the context of the actuarial valuation of the RREGOP prepared on the basis of data as at December 31, 1999 and presented to the pension committee on November 7, 2001. Changes were made to certain assumptions to take participant profiles and specific PPPOCS provisions into account. The short-term economic assumptions take into account the data known the date the valuation is tabled.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

## 5. PENSION OBLIGATIONS (cont'd)

CARRA actuaries established the actuarial valuation of accrued benefits at \$465 454 000 as at December 31, 2001 and estimated it at \$561 834 000 as at December 31, 2004.

## Change in pension obligations

|                                                     | 2004    | 2003    |
|-----------------------------------------------------|---------|---------|
| Actuarial present value of accrued pension benefits |         |         |
| - beginning of year                                 | 532 269 | 467 906 |
| Increase                                            |         |         |
| Changes to the PPPOCS                               |         | 15 007  |
| Actuarial loss                                      |         | 22 990  |
| Interest                                            | 36 860  | 36 758  |
| Benefits accrued                                    | 17 248  | 17 405  |
| Interplan transfers                                 | 4 094   |         |
|                                                     | 58 202  | 92 160  |
| Decrease                                            |         |         |
| Changes in actuarial assumptions                    |         | 1 314   |
| Corrections to participant data                     |         | 2 167   |
| Benefits paid                                       | 28 637  | 24 316  |
|                                                     | 28 637  | 27 797  |
| Net increase for the year                           | 29 565  | 64 363  |
| Actuarial present value of accrued pension benefits |         |         |
| - end of year                                       | 561 834 | 532 269 |

The changes made to the PPPOCS include an amount of \$12 067 000 as at December 2004 (\$12 100 000 as at December 31, 2004) for supplemental benefits.

## Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Valuation for<br>accounting<br>purposes | Valuation<br>for funding<br>purpose |
|-----------------------------------------|-----------------------------------------|-------------------------------------|
| Inflation                               | 4.00 %                                  | 2.90 %                              |
| Rate of return net of inflation         | 4.75                                    | 4.75                                |
| Salary escalation rate net of inflation | 1.25                                    | 0.60                                |

The medium-term rates represent the average rates for the period 2002 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield 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).

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**5. PENSION OBLIGATIONS (cont'd)****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 to generally accepted accounting principles in Canada for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the PPPOCS, the method used by parties of interest to determine employee contribution rates is the overall attained-age actuarial cost method, free of assets. In keeping with 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 and there can be no deficit or surplus assets.

For capitalization purposes, the value of actuarial was \$779 253 000 at December 31, 2004, 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**

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$465 454 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2001, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, February 18, 2004



**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, 2004. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall 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, 2004, 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 General of Québec

Québec, March 19, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)  
PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH  
THE GOUVERNEMENT DU QUÉBEC  
NET ASSETS AVAILABLE FOR BENEFITS  
as at December 31, 2004  
(in thousands of dollars)

|                                                                           | <u>2004</u>           | <u>2002</u>           |
|---------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                                             |                       |                       |
| Investments                                                               |                       |                       |
| Funds entrusted to the Caisse de dépôt et placement<br>du Québec (Note 4) | <u>137 588</u>        | <u>124 329</u>        |
| Accounts receivables                                                      |                       |                       |
| Employee contributions                                                    | 74                    | 73                    |
| Amounts receivable for past service                                       | <u>167</u>            | <u>177</u>            |
|                                                                           | <u>241</u>            | <u>250</u>            |
|                                                                           | 137 829               | 124 579               |
| <b>LIABILITIES</b>                                                        |                       |                       |
| Pensions and administrative expenses payable                              | <u>6</u>              | <u>5</u>              |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b> (Note 7)                         | <u><u>137 823</u></u> | <u><u>124 574</u></u> |

**GOVERNMENT COMMITMENTS VIS-À-VIS THE PPFEQ** (Note 6)

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**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, 2004  
 (in thousands of dollars)

|                                                                                                        | <u>2004</u>    | <u>2003</u>    |
|--------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>INCREASE IN ASSETS</b>                                                                              |                |                |
| Employee contributions, including contributions<br>for past service                                    | 939            | 933            |
| Revenue from funds entrusted to the Caisse de dépôt<br>et placement du Québec (Note 8)                 | 4 833          | 4 761          |
| Changes in the fair value of funds entrusted to the<br>Caisse de dépôt et placement du Québec (Note 8) | <u>9 686</u>   | <u>11 336</u>  |
|                                                                                                        | 15 458         | 17 030         |
| Amounts received from the Gouvernement du Québec<br>to pay administrative expenses                     | <u>18</u>      | <u>31</u>      |
|                                                                                                        | 15 476         | 17 061         |
| <b>DECREASE IN ASSETS</b>                                                                              |                |                |
| Benefits paid                                                                                          |                |                |
| Pensions                                                                                               | 2 103          | 1 964          |
| Contribution refunds and transfers,<br>including interest                                              | 106            | 205            |
| Administrative expenses                                                                                | <u>18</u>      | <u>31</u>      |
|                                                                                                        | 2 227          | 2 200          |
| <b>NET INCREASE FOR THE YEAR</b>                                                                       | 13 249         | 14 861         |
| <b>NET ASSETS AVAILABLE FOR BENEFITS<br/>– BEGINNING OF YEAR</b>                                       | <u>124 574</u> | <u>109 713</u> |
| <b>NET ASSETS AVAILABLE FOR BENEFITS<br/>– END OF YEAR</b>                                             | <u>137 823</u> | <u>124 574</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 FINANCIAL STATEMENTS  
December 31, 2004  
(in thousands of dollars)

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### 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 as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 429-93 and 430-93 of the Gouvernement du Québec.

#### a) General information

The PPFEQ is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan 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 by virtue of Order-in-Council 430-93 of March 31, 1993, came into force on January 1, 1992.

#### b) Funding

Benefits are funded by the contributors according to the contribution rate established by Order-in-Council 430-93, by the sums transferred from the federal government and by the Government du Québec, which assumes the remaining obligations related to benefits.

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 five 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 calculated according to the average pensionable salary for the six consecutive best-paid years, multiplied by 2% per year of service. The pension is reduced beginning at 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) Death benefits

Upon the death of a person who had at least five 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 to receive 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 five 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 to receive an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than five years' pensionable service. If they have more than five years' pensionable service under this plan, they are entitled to an indexed deferred pension payable at age 60.

#### g) Indexation of benefits

Pension benefits under the PPFEQ 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

### 2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

#### 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 the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

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 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. These revenues are 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 Caisse de dépôt et placement du Québec. 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 Caisse de dépôt et placement du Québec. When these funds are empty, they are taken from the Consolidated Revenue Fund.

### 4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

|                                                                                                            | 2004           | 2003           |
|------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Participation deposits in the individual fund – at fair value<br>(cost 2004: \$151 321; 2003: \$142 574) * | 136 659        | 124 220        |
| Demand deposits in the General Fund (advances)                                                             | (7)            | (104)          |
| Revenue receivable from the individual fund                                                                | 936            | 213            |
|                                                                                                            | <u>137 588</u> | <u>124 329</u> |
| * Cost of units                                                                                            | 125 019        | 121 181        |
| Cumulated gains realized, but not yet distributed<br>by individual portfolios                              | 26 302         | 21 393         |
|                                                                                                            | <u>151 321</u> | <u>142 574</u> |

### 5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH  
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**6. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPFEQ**

Under the provisions of the PPFEQ, the Government contribution equals employee contributions for the years preceding the first actuarial valuation. The Government's commitments vis-à-vis the PPFEQ correspond to these contributions plus interest calculated using the annual rate of return of the unionizable employees fund of the Government and Public Employees Retirement Plan entrusted to the Caisse de dépôt et placement du Québec. This annual yield is determined according to the cost exposure. Commitments are estimated \$8 211 000 as at December 31, 2004 (2003: \$7 617 000).

**7. PENSION OBLIGATIONS**

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on 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 valuation of the Government and Public Employees Retirement Plan conducted on the basis of data as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. 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 \$62 836 427 at December 31, 2000 and \$84 557 000 at December 31, 2004.

**Change in pension obligations**

|                                                                            | 2004   | 2003   |
|----------------------------------------------------------------------------|--------|--------|
| Actuarial present value of accrued pension benefits<br>– beginning of year | 78 758 | 73 484 |
| Increase                                                                   |        |        |
| Interest                                                                   | 2 485  | 4 971  |
| Benefits accrued                                                           | 5 523  | 2 472  |
|                                                                            | 8 008  | 7 443  |
| Decrease                                                                   |        |        |
| Benefits paid                                                              | 2 209  | 2 169  |
| Net increase for the year                                                  | 5 799  | 5 274  |
| Actuarial present value of accrued pension benefits<br>– end of year       | 84 557 | 78 758 |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH  
THE GOUVERNEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**7. PENSION OBLIGATIONS (cont'd)**
**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Valuation for<br>accounting<br>purposes | Valuation<br>for funding<br>purpose |
|-----------------------------------------|-----------------------------------------|-------------------------------------|
| Inflation                               | 4.00 %                                  | 2.75 %                              |
| Rate of return net of inflation         | 4.75                                    | 4.75                                |
| Salary escalation rate net of inflation | 1.25                                    | 0.90                                |

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

**8. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                            | 2004         | 2003          |
|------------------------------------------------------------|--------------|---------------|
| Revenue from participation deposits in the individual fund | 4 830        | 4 762         |
| Interest on demand deposits in the General Fund            | 3            | (1)           |
|                                                            | <u>4 833</u> | <u>4 761</u>  |
| Change in fair value                                       |              |               |
| Gains (losses) realized on the sale of investments         | 1 105        | (1 384)       |
| Gains realized by individual portfolios                    | 4 889        | 2 379         |
| Unrealized gains                                           | 3 692        | 10 341        |
|                                                            | <u>9 686</u> | <u>11 336</u> |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH  
THE GOUVERNEMENT DU QUÉBEC  
ACTUARIAL VALUATION**

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The Commission's actuaries carried out an actuarial valuation of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan and to be recorded in the financial statement. This valuation revealed that, at that date, the value was \$62 836 427.

**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, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, September 30, 2002



**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**

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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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2004 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 General of Québec

Québec, March 19, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS**

(R.S.Q., c. R-9.3)

**NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2004

(in thousands of dollars)

|                                                                          | <u>2004</u>    | <u>2003</u>    |
|--------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                            |                |                |
| Investments                                                              |                |                |
| Fund entrusted to the Caisse de dépôt et placement<br>du Québec (Note 4) | 114 504        | 98 115         |
| Accounts receivable                                                      |                |                |
| Employee contributions                                                   | 221            | 308            |
| Employer contributions                                                   | 928            | 3 723          |
| Amounts receivable from beneficiaries                                    | 13             | 40             |
| Amounts receivable from municipalities and agencies                      | 8 400          | 8 400          |
|                                                                          | 1 162          | 12 471         |
| Cash on hand                                                             | 67             | 60             |
|                                                                          | 115 733        | 110 646        |
| <b>LIABILITIES</b>                                                       |                |                |
| Contribution refunds and pensions payable                                | 249            | 363            |
| Administrative expenses payable                                          | 331            | 184            |
| Amounts payable to municipalities and agencies                           | 8 400          | 8 400          |
|                                                                          | 580            | 8 947          |
| <b>NET ASSETS AVAILABLE FOR BENEFITS (Note 6)</b>                        | <u>115 153</u> | <u>101 699</u> |

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

## 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, 2004  
(in thousands of dollars)

|                                                                                                     | 2004         |                | 2003         |                |
|-----------------------------------------------------------------------------------------------------|--------------|----------------|--------------|----------------|
| <b>INCREASE IN NET ASSETS</b>                                                                       |              |                |              |                |
| Employee contributions, including contributions for past service                                    |              | 2 132          |              | 1 691          |
| Employer contributions, including contributions for past service                                    |              |                |              |                |
| Pension Plan of Elected Municipal Officers                                                          | 6 271        |                | 5 707        |                |
| Supplemental Pension Plan for Elected Municipal Officials                                           | <u>2 616</u> | 8 887          | <u>2 266</u> | 7 973          |
| Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)                 |              |                |              |                |
| Pension Plan of Elected Municipal Officers                                                          | 3 943        |                | 3 840        |                |
| Supplemental Pension Plan for Elected Municipal Officials                                           | <u>(45)</u>  | 3 898          | <u>(37)</u>  | 3 803          |
| Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7) |              |                |              |                |
| Pension Plan of Elected Municipal Officers                                                          |              | 8 014          |              | 8 849          |
| Other interest income                                                                               |              | <u>6</u>       |              | <u>3</u>       |
|                                                                                                     |              | <u>22 937</u>  |              | <u>22 319</u>  |
| <b>DECREASE IN NET ASSETS</b>                                                                       |              |                |              |                |
| Benefits paid                                                                                       |              |                |              |                |
| Pensions                                                                                            |              |                |              |                |
| Pension Plan of Elected Municipal Officers                                                          | 6 511        |                | 6 185        |                |
| Supplemental Pension Plan for Elected Municipal Officials                                           | <u>2 295</u> | 8 806          | <u>2 017</u> | 8 202          |
| Contribution refunds and transfers, including interest                                              |              |                |              |                |
| Pension Plan of Elected Municipal Officers                                                          | 289          |                | 176          |                |
| Supplemental Pension Plan for Elected Municipal Officials                                           | <u>21</u>    | 310            | <u>6</u>     | 182            |
| Administrative expenses                                                                             |              |                |              |                |
| Pension Plan of Elected Municipal Officers                                                          | 108          |                | 124          |                |
| Supplemental Pension Plan for Elected Municipal Officials                                           | <u>259</u>   | 367            | <u>206</u>   | 330            |
|                                                                                                     |              | <u>9 483</u>   |              | <u>8 714</u>   |
| <b>NET INCREASE FOR THE YEAR</b>                                                                    |              | 13 454         |              | 13 605         |
| <b>NET ASSETS AVAILABLE FOR BENEFITS - BEGINNING OF YEAR</b>                                        |              | <u>101 699</u> |              | <u>88 094</u>  |
| <b>NET ASSETS AVAILABLE FOR BENEFITS - END OF YEAR</b>                                              |              | <u>115 153</u> |              | <u>101 699</u> |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

(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 as a matter of information. To obtain more complete information concerning these plans, please consult 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 administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans 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 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 for the fiscal year are assumed by municipalities.

**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) Death benefits**

If the person dies while contributing to the PPEMO, is eligible for a retirement pension without deduction or receives 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 FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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) Death benefits (cont'd)**

If the person dies before being eligible for a retirement pension without an actuarial reduction and has at least two years of service, contributions with interest are reimbursed to the heirs. If the person has two years of 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 or her contributions plus interest. If the person is under age 50 and has from two to seven years of service, he or she can choose between having his or her contributions reimbursed with interest or an indexed, deferred pension payable at age 60. If the person is under age 50 and has at least eight years of service, he or 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

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

##### **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 the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

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 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. These revenues are added to the cost of participation deposits.

#### 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 2003, 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.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**3. CAPITALIZATION POLICY (cont'd)**

The PPEMO is not capitalized and the municipalities' contribution corresponds to the benefits and the administrative fees paid by this plan during the fiscal year.

**4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                                                                        | 2004           | 2003           |
|--------------------------------------------------------------------------------------------------------|----------------|----------------|
| Participation deposits in the individual fund – at fair value<br>(cost 2004: 124 788; 2003: 113 154) * | 113 838        | 97 907         |
| Demand deposits in the General Fund                                                                    | 148            | 8              |
| Revenue receivable from individual fund                                                                | 518            | 200            |
|                                                                                                        | <u>114 504</u> | <u>98 115</u>  |
| <br>* Cost of units                                                                                    | <br>103 199    | <br>95 031     |
| Cumulated gains realized, but not yet distributed by<br>individual portfolios                          | <u>21 589</u>  | <u>18 123</u>  |
|                                                                                                        | <u>124 788</u> | <u>113 154</u> |

**5. FINANCIAL INSTRUMENTS**

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

**6. PENSION OBLIGATIONS**

In keeping with the accounting principles that are generally accepted in Canada, pension obligations were determined according to the projected benefit method prorated on service and the most probable assumptions in the opinion of the PPEMO administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the PPEMO carried out in April 2002 for the purposes of funding the plan using data as at December 31, 2000. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits under the PPEMO \$94 289 000 at December 31, 2000 and under the SPPEMO at \$43 150 000 at December 31, 2001 and estimated the total value of accrued benefits for these plans at \$165 549 000 at December 31, 2004.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**
**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**6. PENSION OBLIGATIONS (cont'd)**
**Changes in pension obligations**

|                                                                            | 2004    | 2003    |
|----------------------------------------------------------------------------|---------|---------|
| Actuarial present value of accrued pension benefits<br>- beginning of year | 158 162 | 151 500 |
| Increase                                                                   |         |         |
| Interest                                                                   | 10 946  | 10 110  |
| Benefits accrued                                                           | 5 557   | 4 936   |
|                                                                            | 16 503  | 15 046  |
| Decrease                                                                   |         |         |
| Benefits paid                                                              | 9 116   | 8 384   |
| Net increase for the year                                                  | 7 387   | 6 662   |
| Actuarial present value of accrued pension benefits<br>- end of year       | 165 549 | 158 162 |
| Composed of:                                                               |         |         |
| PPEMO                                                                      | 119 467 | 112 854 |
| SPPEMO                                                                     | 46 082  | 45 308  |
|                                                                            | 165 549 | 158 162 |

**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                    | Valuation for<br>accounting<br>purposes | Valuation<br>for funding<br>purpose |
|------------------------------------|-----------------------------------------|-------------------------------------|
| Inflation                          | 4.00 %                                  | 2.75 %                              |
| Rate of return net of inflation    | 4.75                                    | 4.75                                |
| Salary escalation net of inflation | 0.00                                    | 0.00                                |

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                            | <u>2004</u>  | <u>2003</u>  |
|------------------------------------------------------------|--------------|--------------|
| Revenue from participation deposits in the individual fund | 3 885        | 3 802        |
| Interest on demand deposits in the General Fund            | <u>13</u>    | <u>1</u>     |
|                                                            | <u>3 898</u> | <u>3 803</u> |
|                                                            | <u>2004</u>  | <u>2003</u>  |
| Change in fair value                                       |              |              |
| Losses realized on the sale of investments                 | (471)        | (1 063)      |
| Gains realized by individual portfolios                    | 4 188        | 1 865        |
| Unrealized gains                                           | <u>4 297</u> | <u>8 047</u> |
|                                                            | <u>8 014</u> | <u>8 849</u> |



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of Elected Municipal Officers according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$94 289 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION  
REPORT FOR THE PENSION PLAN OF ELECTED MUNICIPAL OFFICERS AT DECEMBER 31, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, April 4, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Supplemental Pension Plan for Elected Municipal Officials according to the contributors' profile as at December 31, 2000 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at December 31, 2001, this value was \$43 150 000.

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, 2001,  
CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, March 14, 2003

**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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2004 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles 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 General of Québec

Québec, March 14, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

(R.S.Q., c. R-16)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2004

(in thousand of dollars)

|                                                                          | <u>2004</u>          | <u>2003</u>          |
|--------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                            |                      |                      |
| Investments                                                              |                      |                      |
| Fund entrusted to the Caisse de dépôt et placement<br>du Québec (Note 3) | 11 126               | 10 982               |
| <b>LIABILITIES</b>                                                       |                      |                      |
| Pensions payable                                                         | <u>122</u>           | <u>47</u>            |
| <b>NET ASSETS AVAILABLE POUR FOR BENEFITS</b><br>(Note 5)                | <u><u>11 004</u></u> | <u><u>10 935</u></u> |

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**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, 2004  
(in thousand of dollars)

|                                                                                                        | <u>2004</u>          | <u>2003</u>          |
|--------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>INCREASE IN ASSETS</b>                                                                              |                      |                      |
| Revenue from funds entrusted to the Caisse de dépôts<br>et placement du Québec (Note 6)                | 409                  | 434                  |
| Changes in the fair value of funds entrusted to the<br>Caisse de dépôt et placement du Québec (Note 6) | <u>1 048</u>         | <u>1 135</u>         |
|                                                                                                        | <u>1 457</u>         | <u>1 569</u>         |
| <b>DECREASE IN ASSETS</b>                                                                              |                      |                      |
| Benefits paid                                                                                          |                      |                      |
| Pensions                                                                                               | 1 228                | 1 184                |
| Contribution refunds and transfers,<br>including interest                                              | <u>160</u>           | <u>32</u>            |
|                                                                                                        | <u>1 388</u>         | <u>1 216</u>         |
| <b>NET INCREASE FOR THE YEAR</b>                                                                       | 69                   | 353                  |
| <b>NET ASSETS AVAILABLE FOR BENEFITS<br/>– BEGINNING OF YEAR</b>                                       | <u>10 935</u>        | <u>10 582</u>        |
| <b>NET ASSETS AVAILABLE FOR BENEFITS<br/>– END OF YEAR</b>                                             | <u><u>11 004</u></u> | <u><u>10 935</u></u> |

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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 as a matter of information. To obtain more complete information concerning this plan, please consult the Act respecting retirement plans for the mayors and councillors of municipalities (R.S.Q., c. R-16).

##### a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan 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 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 a deficit. Since the Act governing the plan does not specify to whom the surplus at the end of the plan 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 had accumulated at least eight years' pensionable service. The pension is calculated on the basis of the amount of employee and employer contributions, plus interest, which 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) Death benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is or are entitled to receive the pension until the 15-year period expires or, on 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 are entitled to reimbursement of the amounts accumulated in his account.

#### 2. ACCOUNTING POLICIES

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

##### Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

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 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. These revenues are 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 FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousand of dollars)

**3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                                                                      | 2004          | 2003          |
|------------------------------------------------------------------------------------------------------|---------------|---------------|
| Participation deposits in the individual fund – at fair value<br>(cost 2004: 12 136; 2003: 12 667) * | 11 071        | 10 960        |
| Demand deposits in the General Fund                                                                  | 5             |               |
| Revenue receivable from the individual fund                                                          | 50            | 22            |
|                                                                                                      | <u>11 126</u> | <u>10 982</u> |
| <br>* Cost of units                                                                                  | <br>9 370     | <br>10 141    |
| Cumulated gains realized, but not yet distributed<br>by individual portfolios                        | <u>2 766</u>  | <u>2 526</u>  |
|                                                                                                      | <u>12 136</u> | <u>12 667</u> |

**4. FINANCIAL INSTRUMENTS**

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

**5. PENSION OBLIGATIONS**

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to the Plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation for the Government and Public Employees Retirement Plan conducted on the basis of data as at December 31, 1999 and tabled before the retirement committee on November 7, 2001. 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 2003 to 2010 is 7.65% while the long-term rate is 8.75% as of 2011.

CARRA actuaries established the actuarial value of accrued benefits at \$13 860 000 at December 31, 2002 and estimated it at \$13 050 000 as at December 31, 2004.

**Changes in pension obligations**

|                                                                            | 2004          | 2003          |
|----------------------------------------------------------------------------|---------------|---------------|
| Actuarial present value of accrued pension benefits<br>- beginning of year | <u>13 539</u> | <u>13 860</u> |
| Increase<br>Interest                                                       | 899           | 895           |
| Decrease<br>Benefits paid Decrease                                         | <u>1 388</u>  | <u>1 216</u>  |
| Net decrease for the year                                                  | <u>489</u>    | <u>321</u>    |
| Actuarial present value of accrued pension benefits<br>- end of year       | <u>13 050</u> | <u>13 539</u> |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousand of dollars)

**6. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                | <u>2004</u>  | <u>2003</u>  |
|------------------------------------------------|--------------|--------------|
| Net investment income from the individual fund | <u>409</u>   | <u>434</u>   |
| Change in fair value                           |              |              |
| Losses realized on the sale of investments     | (38)         | (209)        |
| Gains realized by individual portfolios        | 444          | 217          |
| Unrealized gains                               | <u>642</u>   | <u>1 127</u> |
|                                                | <u>1 048</u> | <u>1 135</u> |



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Retirement Plan for the Mayors and Councillors of Municipalities according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$13 860 000.

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, 2002, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, March 11, 2003

**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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2004 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles 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 General of Québec

Québec, March 18, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2004

(in thousand of dollars)

|                                                                           | <u>2004</u>   | <u>2003</u>   |
|---------------------------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                                             |               |               |
| Investments                                                               |               |               |
| Funds entrusted to the Caisse de dépôt et placement<br>du Québec (Note 4) | 62 289        | 57 684        |
| Accounts receivable                                                       |               |               |
| Employee contributions                                                    | 10            | 11            |
| Employer contributions                                                    | 4             | 5             |
|                                                                           | 14            | 16            |
|                                                                           | <u>62 303</u> | <u>57 700</u> |
| <b>LIABILITIES</b>                                                        |               |               |
| Excess employee contributions to be refunded                              | 1             | 2             |
| <b>NET ASSETS AVAILABLE FOR BENEFITS (Note 6)</b>                         | <u>62 302</u> | <u>57 698</u> |

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**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, 2004

(in thousand of dollars)

|                                                                                                     | <u>2004</u>          | <u>2003</u>          |
|-----------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>INCREASE IN ASSETS</b>                                                                           |                      |                      |
| Employee contributions, including contributions for past service                                    | 27                   | 32                   |
| Employer contributions, including contributions for past service                                    | 22                   | 21                   |
| Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)                 | 2 225                | 2 248                |
| Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7) | <u>4 594</u>         | <u>5 489</u>         |
|                                                                                                     | <u>6 868</u>         | <u>7 790</u>         |
| <b>DECREASE IN ASSETS</b>                                                                           |                      |                      |
| Benefits paid                                                                                       |                      |                      |
| Pensions                                                                                            | 2 264                | 2 218                |
| Contribution refunds, including interest                                                            | <u>          </u>    | <u>22</u>            |
|                                                                                                     | <u>2 264</u>         | <u>2 240</u>         |
| <b>NET INCREASE FOR THE YEAR</b>                                                                    | 4 604                | 5 550                |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>                                                            |                      |                      |
| – BEGINNING OF YEAR                                                                                 | <u>57 698</u>        | <u>52 148</u>        |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>                                                            |                      |                      |
| – END OF YEAR                                                                                       | <u><u>62 302</u></u> | <u><u>57 698</u></u> |

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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 as a matter of information. To obtain more complete information concerning this plan, please consult Orders-in-Council 2497-81 and 397-78 of the Gouvernement du Québec.

##### a) General information

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan 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 benefit 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 any actuarial reduction at age 60 if they have five or more years' pensionable service or, if they have 30 or more years' pensionable service, at age 55.

Contributors are entitled to an actuarially reduced pension at age 50 if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable salary for the six consecutive best-paid years by 2% per year of service (maximum 35 years' service). The pension is reduced beginning at 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. The latter is calculated like regular benefits based on the number of years of service accumulated under the Plan.

##### e) Death benefits

If a person dies with less than five years of service or when receiving a retirement pension, his or 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 to receive 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 of service, the spouse, or if there is no spouse, the heirs, 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 the 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 FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousand of dollars)

**2. ACCOUNTING POLICIES**

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

**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 the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of the individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains 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. These revenues are added to the cost of 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 Caisse de dépôt et placement du Québec and the amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

Net assets available for benefit service is more than sufficient to cover all future plan benefits. The parties concerned will have to examine the plan's funding, given the surplus assets.

**4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                                                                    | 2004          | 2003          |
|----------------------------------------------------------------------------------------------------|---------------|---------------|
| Participation deposits in the individual fund – at fair value (cost- 2004: 68 511; 2003: 66 115) * | 61 858        | 57 584        |
| Demand deposits in the General Fund                                                                | 6             | 1             |
| Revenue receivable from the individual fund                                                        | 425           | 99            |
|                                                                                                    | <u>62 289</u> | <u>57 684</u> |
| <br>* Cost of units                                                                                | <br>55 555    | <br>55 362    |
| Cumulated gains realized, but not yet distributed by the individual portfolios                     | 12 956        | 10 753        |
|                                                                                                    | <u>68 511</u> | <u>66 115</u> |

**5. FINANCIAL INSTRUMENTS**

The fair value of accounts payable, excess employee contributions and pensions payable is equal to their book value given that they mature in the near future.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**
**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousand of dollars)

**6. PENSION OBLIGATIONS**

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to 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, 1999 and tabled before the retirement committee on November 7, 2001. 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 \$30 728 006 as at December 31, 2000 and estimated it at \$30 737 000 as at December 31, 2004.

**Changes in pension obligations**

|                                                                            | 2004   | 2003   |
|----------------------------------------------------------------------------|--------|--------|
| Actuarial present value of accrued pension benefits<br>– beginning of year | 30 790 | 30 858 |
| Increase                                                                   |        |        |
| Interest                                                                   | 2 080  | 2 012  |
| Benefits accrued                                                           | 131    | 160    |
|                                                                            | 2 211  | 2 172  |
| Decrease                                                                   |        |        |
| Benefits paid                                                              | 2 264  | 2 240  |
| Net decrease for the year                                                  | 53     | 68     |
| Actuarial present value of accrued pension benefits<br>– end of year       | 30 737 | 30 790 |

**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Valuation for<br>accounting<br>purposes | Valuation<br>for funding<br>purpose |
|-----------------------------------------|-----------------------------------------|-------------------------------------|
| Inflation                               | 4.00 %                                  | 2.75 %                              |
| Rate of return net of inflation         | 4.75                                    | 4.75                                |
| Salary escalation rate net of inflation | 1.25                                    | 0.65                                |

The medium-term rates represent the average rates for the period 2001 to 2010, while the long-term rates represent the rates used as of 2011.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousand of dollars)

**7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                    | <u>2004</u>  | <u>2003</u>  |
|----------------------------------------------------|--------------|--------------|
| Net investment income from the individual fund     | 2 223        | 2 246        |
| Interest on demand deposits in the General Fund    | <u>2</u>     | <u>2</u>     |
|                                                    | <u>2 225</u> | <u>2 248</u> |
| Change in fair value                               |              |              |
| Gains (losses) realized on the sale of investments | 468          | (684)        |
| Gains realized by the individual portfolios        | 2 247        | 1 119        |
| Unrealized gains                                   | <u>1 879</u> | <u>5 054</u> |
|                                                    | <u>4 594</u> | <u>5 489</u> |



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****ACTUARIAL VALUATION**

---

The Commission's actuaries carried out an actuarial valuation of the Retirement Plan for Active Members of the Centre hospitalier Côte-des Neiges according to the contributors' profile as at December 31, 2002 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$30 728 006.

**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, 2000, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA  
Actuary

André Simard, FICA, FSA  
Actuary

Québec, October 24, 2002

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

## AUDITOR'S REPORT

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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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2004 and 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 General of Québec

Québec, March 18, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)  
**SPECIAL PENSION PLANS**

**NET ASSETS AVAILABLE FOR BENEFITS**  
as at December 31, 2004

|                                                                           | <u>2004</u>                 | <u>2003</u>               |
|---------------------------------------------------------------------------|-----------------------------|---------------------------|
| <b>ASSETS</b>                                                             |                             |                           |
| Investments                                                               |                             |                           |
| Funds entrusted to the Caisse de dépôt et placement<br>du Québec (Note 3) | \$1 376 426                 | \$1 366 041               |
| Cash on hand                                                              | <u>266</u><br>1 376 692     | <u>4 182</u><br>1 366 041 |
| <b>LIABILITIES</b>                                                        |                             |                           |
| Contribution refunds                                                      | <u>                    </u> | <u>4 182</u>              |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b><br>(Notes 5 and 6)               | <u><u>\$1 376 692</u></u>   | <u><u>\$1 361 859</u></u> |

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

**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, 2004**

|                                                                                                           | <u>2004</u>               | <u>2003</u>               |
|-----------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>INCREASE IN ASSETS</b>                                                                                 |                           |                           |
| Employer contributions, including contributions<br>for past service                                       | \$6 859                   | \$5 958                   |
| Revenue from funds entrusted to the Caisse de<br>dépôt et placement du Québec (Note 7)                    | 52 211                    | 54 029                    |
| Changes in the fair value of funds entrusted to<br>the Caisse de dépôt et placement du Québec<br>(Note 7) | <u>112 885</u>            | <u>139 757</u>            |
|                                                                                                           | <u>171 955</u>            | <u>199 744</u>            |
| <b>DECREASE IN ASSETS</b>                                                                                 |                           |                           |
| Benefits paid<br>Pensions                                                                                 | <u>157 122</u>            | <u>155 181</u>            |
| <b>NET INCREASE FOR THE YEAR</b>                                                                          | 14 833                    | 44 563                    |
| <b>NET ASSETS AVAILABLE FOR BENEFITS,<br/>BEGINNING OF YEAR</b>                                           | <u>1 361 859</u>          | <u>1 317 296</u>          |
| <b>NET ASSETS AVAILABLE FOR BENEFITS,<br/>END OF YEAR</b>                                                 | <u><u>\$1 376 692</u></u> | <u><u>\$1 361 859</u></u> |

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### SPECIAL PENSION PLANS

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

### 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 as a matter of information. To obtain more complete information concerning this plan, please consult Order-in-Council 842-82 of the Gouvernement du Québec.

##### **a) General information**

The Plan is administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is a defined-benefit pension plan 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.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

##### **c) Death benefits**

Upon the death of a beneficiary, the surviving spouse or 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 as a matter of information. To obtain 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.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

##### **c) Death 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 FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

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**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 as a matter of information. To obtain 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.

**c) Death benefits**

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is or 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**

These financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. They include amounts based on best estimates and judgements.

**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 the individual fund of the Caisse de dépôt et placement du Québec are recorded at fair value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

The investments of the individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains 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. These revenues are added to the cost of participation deposits.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**
**SPECIAL PENSION PLANS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

**3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                                                                                 | 2004               | 2003               |
|-----------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Participation deposits in the individual fund – at fair value<br>(cost- 2004: \$1 514 876; 2003: \$1 566 539) * | \$1 368 040        | \$1 364 780        |
| Revenue receivable from the individual fund                                                                     | 8 386              | 1 261              |
|                                                                                                                 | <u>\$1 376 426</u> | <u>\$1 366 041</u> |
| <br>* Cost of units                                                                                             | <br>\$1 234 041    | <br>\$1 316 907    |
| Cumulated gains realized, but not yet distributed<br>by the individual portfolios                               | <u>280 835</u>     | <u>249 632</u>     |
|                                                                                                                 | <u>\$1 514 876</u> | <u>\$1 566 539</u> |

**4. FINANCIAL INSTRUMENTS**

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the near future.

**5. NET ASSETS AVAILABLE FOR BENEFITS**

|                                                                                         | 2004               | 2003               |
|-----------------------------------------------------------------------------------------|--------------------|--------------------|
| Pension Plan of the Former Employees of the<br>City of Saint-Laurent                    | \$876 721          | \$874 216          |
| Pension Plan of the Former Employees of the<br>Town of Westmount                        | 263 420            | 251 089            |
| Pension plan for the chairman of the Conseil<br>de la Communauté urbaine de l'Outaouais | <u>236 551</u>     | <u>236 554</u>     |
|                                                                                         | <u>\$1 376 692</u> | <u>\$1 361 859</u> |

**6. PENSION OBLIGATIONS**
**Valuation of pension obligations**

In keeping with the accounting principles generally recognized in Canada, obligations related to benefits were determined using the projected benefit method prorated on services and the most probable hypotheses according to 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. 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 2005 to 2013 is 7.08% and is 8.0% after 2013.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## SPECIAL PENSION PLANS

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

**6. PENSION OBLIGATIONS (cont'd)****Changes in pension obligations**

|                                                                                         | 2004        | 2003        |
|-----------------------------------------------------------------------------------------|-------------|-------------|
| Actuarial present value of accrued pension benefits,<br>beginning of year               | \$1 226 475 | \$1 299 197 |
| Increase                                                                                |             |             |
| Actuarial loss                                                                          | 57 919      |             |
| Change in actuarial assumptions                                                         | 60 201      |             |
| Correction to participant data                                                          | 766         |             |
| Interest                                                                                | 80 352      | 82 459      |
|                                                                                         | 199 238     | 82 459      |
| Decrease                                                                                |             |             |
| Benefits paid                                                                           | 157 122     | 155 181     |
| Net increase (decrease) for the year                                                    | 42 116      | (72 722)    |
| Actuarial present value of accrued pension benefits,<br>end of year                     | \$1 268 591 | \$1 226 475 |
| Composed of:                                                                            |             |             |
| Pension Plan of the Former Employees of the<br>City of Saint-Laurent                    | \$827 358   | \$788 609   |
| Pension Plan of the Former Employees of the<br>Town of Westmount                        | 137 780     | 132 569     |
| Pension plan for the chairman of the Conseil<br>de la Communauté urbaine de l'Outaouais | 303 453     | 305 297     |
|                                                                                         | \$1 268 591 | \$1 226 475 |

**7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                    | 2004      | 2003       |
|----------------------------------------------------|-----------|------------|
| Net investment income from the individual fund     | \$52 108  | \$54 029   |
| Interest on demand deposits in the General<br>Fund | 103       |            |
|                                                    | \$52 211  | \$54 029   |
| Change in fair value                               |           |            |
| Gains (losses) realized on the sale of investments | \$5 973   | \$(31 182) |
| Gains realized by individual portfolios            | 51 989    | 27 775     |
| Unrealized gains                                   | 54 923    | 143 164    |
|                                                    | \$112 885 | \$139 757  |



**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## SPECIAL PENSION PLANS

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Former Employees of the City of Saint-Laurent according to the contributors' profile as at December 31, 2004 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$827 358.

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, 2004, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA  
Actuary

Québec, February 23, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## SPECIAL PENSION PLANS

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Former Employees of the Town of Westmount according to the contributors' profile as at December 31, 2004 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$137 780.

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, 2004, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA  
Actuary

Québec, February 23, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## SPECIAL PENSION PLANS

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Chairman of the Conseil de la Communauté urbaine de l'Outaouais according to the contributors' profile as at December 31, 2004 in order to determine the value of the obligations resulting from the Plan in the financial statements. This valuation revealed that, at that date, this value was \$303 453.

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, 2004, CARRIED OUT 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA  
Actuary

Québec, February 23, 2005

**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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2004 and the changes in this position for the year then ended, in accordance with generally accepted accounting principles 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 General of Québec

Québec, March 18, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

(R.S.Q., c. R-10)

**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, 2004

(in thousands of dollars)

|                                                                                                     | 2004          | 2003          |
|-----------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>CONTRIBUTIONS</b>                                                                                |               |               |
| Employee contributions, including contributions for past service                                    |               |               |
| Pension Plan of the Members of the National Assembly                                                | 1 138         | 1 011         |
| <b>AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND</b>                                           | <u>1 138</u>  | <u>1 011</u>  |
| <b>BENEFITS</b>                                                                                     |               |               |
| Benefits paid                                                                                       |               |               |
| Pensions                                                                                            |               |               |
| Pension Plan of the Members of the National Assembly                                                | 8 545         | 8 071         |
| Supplement pension plan for members of the National Assembly                                        | 2 248         | 1 689         |
| Special Pension                                                                                     | <u>12</u>     | <u>12</u>     |
|                                                                                                     | 10 805        | 9 772         |
| Contribution refunds and transfer including interest                                                |               |               |
| Pension Plan of the Members of the National Assembly                                                | 216           | 651           |
| Administrative expenses                                                                             |               |               |
| Pension Plan of the Members of the National Assembly                                                | <u>10</u>     | <u>28</u>     |
| <b>AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES</b> | <u>11 031</u> | <u>10 451</u> |

**PENSION OBLIGATIONS (Note 4)****LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 5)**

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

#### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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 as a matter of information. To obtain more complete information concerning these plans, please consult 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 administered by the Commission administrative des régimes de retraite et d'assurances (CARRA). They are defined-benefit pension plans 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 benefit 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 any actuarial reduction at age 60, or to an actuarially reduced pension if he or 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 or 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 December 31, 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 of 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.

##### **d) Death 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 to receive a pension equal to 10% of this pension or, if no pension is paid to the spouse, to 20% of the pension.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND PECIAL PENSION PLAN

#### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(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) Death benefits (cont'd)

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

This financial statement was prepared by management in accordance with the accounting principles that are generally accepted in Canada. This statement includes amounts based on best estimates and judgements. Since the plans have no assets, no statement of assets available for benefit service has been presented.

##### 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.

#### 4. PENSION OBLIGATIONS

In keeping with the accounting principles that are generally accepted in Canada, pension obligations must be determined according to the projected benefit method prorated on 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 context of the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data at December 31, 1999 and presented to the retirement committee on November 7, 2001. 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 and the SPPMNA at \$140 341 000 as at December 31, 2001 and estimated it at \$151 510 000 as at December 31, 2004.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**4. PENSION OBLIGATIONS (cont'd)****Change in pension obligations**

|                                                                            | 2004    | 2003    |
|----------------------------------------------------------------------------|---------|---------|
| Actuarial present value of accrued pension benefits<br>– beginning of year | 147 522 | 144 067 |
| Increase                                                                   |         |         |
| Interest                                                                   | 10 113  | 9 520   |
| Benefits accrued                                                           | 4 896   | 4 358   |
|                                                                            | 15 009  | 13 878  |
| Decrease                                                                   |         |         |
| Benefits paid                                                              | 11 021  | 10 423  |
| Net increase for the year                                                  | 3 988   | 3 455   |
| Actuarial present value of accrued pension benefits<br>– end of year       | 151 510 | 147 522 |

**Significant long-term economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

|                                         | Valuation for<br>accounting<br>purposes | Valuation<br>for funding<br>purpose |
|-----------------------------------------|-----------------------------------------|-------------------------------------|
| Inflation                               | 4.00 %                                  | 2.80 %                              |
| Rate of return net of inflation         | 4.75                                    | 4.75                                |
| Salary escalation rate net of inflation | 1.25                                    | 1.30                                |

The medium-term rates represent the average rates for the period 2002 to 2010, while the long-term rates represent the rates used as of 2011. The assumption related to yield 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 with generally recognized accounting policies applicable to the public sector in Canada. 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.



# COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

### 5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

The pension costs for the plans 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 according to 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

|                                                                                                           | 2004                  | 2003                  |
|-----------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Liability recorded in the Government's financial statements<br>as at March 31 of the previous fiscal year | <u>152 496</u>        | <u>151 404</u>        |
| Increase                                                                                                  |                       |                       |
| Contributions recovered                                                                                   | 1 064                 | 1 032                 |
| Pension costs                                                                                             |                       |                       |
| Current service                                                                                           | 3 545                 | 3 434                 |
| Past service                                                                                              | (2 709)               | (2 709)               |
| Interest                                                                                                  | <u>9 585</u>          | <u>9 343</u>          |
|                                                                                                           | 11 485                | 11 100                |
| Decrease                                                                                                  |                       |                       |
| Benefits and administrative expenses paid by the<br>Gouvernement du Québec                                | <u>10 532</u>         | <u>10 008</u>         |
| Net increase                                                                                              | <u>953</u>            | <u>1 092</u>          |
| Liability recorded in the Government's financial statements<br>as at March 31 of the current fiscal year  | <u>153 449</u>        | <u>152 496</u>        |
| <b>Estimated liability recorded as at December 31</b>                                                     | <u><u>153 399</u></u> | <u><u>152 807</u></u> |

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, 2004: \$52 485 billion). At December 31, 2004, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$14 986 billion, \$7 159 billion of which are slated for the Government and Public Employees Retirement Plan (RREGOP) and \$1 018 billion for the Pension Plan of Management Personnel.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Pension Plan of the Members of the National Assembly according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations to be recorded in the plan's financial statement. This valuation reveals that, at that date, this value was \$103 322 000.

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, 2001,  
CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, January 8, 2003

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**

## PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

## ACTUARIAL VALUATION

---

The Commission's actuaries carried out an actuarial valuation of the Supplemental Pension Plan for the Members of the National Assembly according to the contributors' profile as at December 31, 2001 in order to determine the value of the obligations to be recorded in the plan's financial statement. This valuation reveals that, at that date, this value was \$37 019 000.

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, 2001, CARRIED OUT 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 are appropriate and reasonable in the current context;
- 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 carried out this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA  
Actuary

Alain Jacob, FICA, FSA  
Actuary

Québec, January 8, 2003

**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, 2004. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statement is free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall 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, 2004, in accordance with generally accepted accounting principles 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  
Acting Auditor General of Québec

Québec, March 14, 2005

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**  
(R.S.Q., c. R-10)

INCOME AND SURPLUS  
for the year ended December 31, 2004  
(in thousand of dollars)

|                                          | <u>2004</u>   | <u>2003</u>   |
|------------------------------------------|---------------|---------------|
| <b>EXPENDITURE</b>                       |               |               |
| Salaries and fringe benefits             | 27 785        | 27 378        |
| Professional fees                        | 5 319         | 5 813         |
| Communications and transportation        | 1 808         | 1 618         |
| Space and equipment rental               | 2 332         | 2 212         |
| Equipment                                | 1 029         | 748           |
| Office supplies                          | 364           | 329           |
| Maintenance and repairs                  | 776           | 712           |
| Interest on long-term debt               | 39            | 45            |
| Other expenses                           | 68            | 73            |
| Write-off of computer system development | 68            | 1 744         |
| Depreciation of fixed assets             | <u>2 823</u>  | <u>2 697</u>  |
|                                          | <u>42 343</u> | <u>43 369</u> |
| <b>REVENUE</b>                           |               |               |
| Expenses assumed by the RREGOP           |               |               |
| Employee contributions fund              | 16 273        | 14 261        |
| Employer contributions fund              | 16 068        | 18 120        |
| Expenses assumed by the PPMP             |               |               |
| Employee contributions fund              | 1 664         | 1 954         |
| Employer contributions fund              | 1 379         | 1 715         |
| Other plans                              | 6 755         | 6 866         |
| Other sources                            | <u>195</u>    | <u>370</u>    |
|                                          | <u>42 334</u> | <u>43 286</u> |
| <b>DEFICIT FOR THE YEAR</b>              | (9)           | (83)          |
| <b>SURPLUS – BEGINNING OF YEAR</b>       | <u>18</u>     | <u>101</u>    |
| <b>SURPLUS – END OF YEAR</b>             | <u>9</u>      | <u>18</u>     |

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

BALANCE SHEET  
as at December 31, 2004  
(in thousand of dollars)

|                                                                                   | 2004          | 2003          |
|-----------------------------------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                                                     |               |               |
| <b>Current assets</b>                                                             |               |               |
| Cash on hand                                                                      | 558           | 469           |
| Accounts receivable                                                               | 3 054         | 2 476         |
| Demand deposit to the Caisse de dépôt et placement<br>du Québec – at cost (2.52%) | 3 109         | 3 172         |
|                                                                                   | <u>6 721</u>  | <u>6 117</u>  |
| <b>Fixed assets</b> (Note 3)                                                      | 13 386        | 11 090        |
| <b>Owed by the pension plans</b> (Note 6)                                         | 6 772         | 6 403         |
|                                                                                   | <u>20 158</u> | <u>17 493</u> |
|                                                                                   | <u>26 879</u> | <u>23 610</u> |
| <b>LIABILITIES</b>                                                                |               |               |
| <b>Current liabilities</b>                                                        |               |               |
| Accounts payable and accruals                                                     | 3 082         | 2 242         |
| Instalments on long-term debt (Note 4)                                            | 237           | 214           |
|                                                                                   | <u>3 319</u>  | <u>2 456</u>  |
| <b>Long-term debt</b> (Note 4)                                                    | 291           | 493           |
| <b>Deferred contributions</b> (Note 5)                                            | 13 386        | 11 090        |
| <b>Provision for sick leave and vacation time</b> (Note 6)                        | 9 874         | 9 553         |
|                                                                                   | <u>26 870</u> | <u>23 592</u> |
| <b>SURPLUS</b>                                                                    | 9             | 18            |
|                                                                                   | <u>26 879</u> | <u>23 610</u> |

## COMMITMENTS (Note 10)

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
and Material Resources

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CASH FLOWS  
for the year ended December 31, 2004  
(in thousand of dollars)

|                                                             | <u>2004</u>     | <u>2003</u>     |
|-------------------------------------------------------------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>                                 |                 |                 |
| Deficit for the year                                        | (9)             | (83)            |
| Items not affecting liquid assets                           |                 |                 |
| Depreciation of fixed assets                                | 2 823           | 2 697           |
| Write-off of computer system development                    |                 | 1 744           |
| Transfer of deferred contributions                          | <u>(2 823)</u>  | <u>(4 789)</u>  |
|                                                             | .....(9).....   | .....(431)..... |
| Changes in assets and liabilities related to operation      |                 |                 |
| Accounts receivable                                         | (578)           | 369             |
| Owed by the Secrétariat du Conseil du trésor                |                 | 563             |
| Owed by the pension plans                                   | (369)           | (408)           |
| Accounts payable and accruals                               | 840             | (327)           |
| Deferred contributions – financing from plans               | 5 119           | 6 508           |
| Provisions for sick leave and vacation time                 | <u>321</u>      | <u>375</u>      |
|                                                             | .....5 333..... | .....7 080..... |
| Cash flows from operating activities                        | <u>5 324</u>    | <u>6 649</u>    |
| <b>FINANCING ACTIVITIES</b>                                 |                 |                 |
| Cash flows from financing activities                        |                 |                 |
| Repayment of the long-term debt                             | <u>(218)</u>    | <u>(186)</u>    |
| <b>INVESTMENT ACTIVITIES</b>                                |                 |                 |
| Cash flows used for investment activities                   |                 |                 |
| Acquisition of fixed assets                                 | <u>(5 080)</u>  | <u>(6 272)</u>  |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                | 26              | 191             |
| <b>CASH AND CASH-EQUIVALENTS –<br/>BEGINNING OF YEAR</b>    | <u>3 641</u>    | <u>3 450</u>    |
| <b>CASH AND CASH EQUIVALENTS –<br/>END OF YEAR (Note 7)</b> | <u>3 667</u>    | <u>3 641</u>    |

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****NOTES TO FINANCIAL STATEMENT**

December 31, 2004

(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 Government and Public Employees Retirement Plan (R.S.Q., c. R-10) for the purpose of administering this plan and any other pension or insurance plan whose management is assigned to the Commission by an act or by the Gouvernement du Québec.

The Government determines CARRA's overall annual budget. It also determines, in keeping with an agreement applicable when necessary, the portion of this amount attributable to Government and Public Employees Retirement Plan (RREGOP) participants, the amount attributable to Pension Plan of Management Personnel (PPMP) participants and finally the amount attributable to the participants of the other pension plans administered by CARRA.

**2. ACCOUNTING POLICIES**

The financial statements of CARRA were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are recorded at cost. Computer systems development includes the cost of administrative design, preparation and implementation.

Fixed assets are amortized using the straight-line method over their 5-year service life.

Amortization of a fixed asset being developed begins when the computer system becomes operational.

**Depreciation 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 fixed assets are deferred and transferred to results using the same method and same rates as those used for the amortization of the fixed assets they are related to.

**Pension plans**

The accounting procedure used for defined contribution plans is applied to interenterprise government defined-benefit plans, given that CARRA lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Cash and cash equivalents**

CARRA's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired.



## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2004

(in thousand of dollars)

**3. FIXED ASSETS**

|                                 | 2004          |                          |               | 2003          |
|---------------------------------|---------------|--------------------------|---------------|---------------|
|                                 | Cost          | Accumulated depreciation | Net           | Net           |
| Integrated furniture            | 2 913         | 2 124                    | 789           | 932           |
| Computer equipment and software | 3 241         | 1 607                    | 1 634         | 1 017         |
| Equipment                       | 44            | 8                        | 36            |               |
| Computer system development *   |               |                          |               |               |
| RISE project                    | 3 075         |                          | 3 075         | 1 578         |
| Other projects                  | 16 388        | 8 536                    | 7 852         | 7 563         |
|                                 | <u>25 661</u> | <u>12 275</u>            | <u>13 386</u> | <u>11 090</u> |

The cost of fixed assets includes an unamortized amount of \$5 370 634, since development work had not been completed and the systems were not yet operational at fiscal year-end. This amount breaks down as follows: \$596 142 for computer hardware and software and \$4 774 492 (2003: \$2 460 972) for computer systems development.

\* To offset the various problems inherent in pension plan administration, CARRA undertook a complete, in-depth modernization of its business processes and its systems. This process materialized in the preparation of a global investment plan proposing a renewed business vision and new corporate structure. In this context, CARRA presents separately in its financial statements, in the "Fixed assets" section, computer systems development projects, i.e. Renewal and integration of systems that are essential (RISE) and other projects.

**4. LONG-TERM DEBT**

|                                                                                         | 2004       | 2003       |
|-----------------------------------------------------------------------------------------|------------|------------|
| Borrowings from the Société immobilière du Québec                                       |            |            |
| Rate of 5.00%, repayable in monthly instalments of \$792, maturing October 31, 2006     | 16         |            |
| Rate of 5.52%, repayable in monthly instalments of \$403, maturing February 28, 2009    | 18         |            |
| Rate of 5.52%, repayable in monthly instalments of \$615, maturing June 30, 2005        | 4          | 11         |
| Rate of 5.52%, repayable in monthly instalments of \$1 526, maturing April 30, 2008     | 56         | 70         |
| Rate of 5.52%, repayable in monthly instalments of \$2 697, maturing April 30, 2008     | 98         | 124        |
| Rate of 6.68%, repayable in monthly instalments of \$4 898, maturing March 30, 2006     | 70         | 122        |
| Rate of 6.68%, repayable in monthly instalments of \$7 152, maturing September 30, 2006 | 141        | 215        |
| Rate of 6.08%, repayable in monthly instalments of \$3 613, maturing September 30, 2007 | 110        | 145        |
| Rate of 6.08%, repayable in monthly instalments of \$494, maturing September 30, 2007   | 15         | 20         |
|                                                                                         | <u>528</u> | <u>707</u> |
| Portion maturing in the coming fiscal year                                              | 237        | 214        |
|                                                                                         | <u>291</u> | <u>493</u> |

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

## NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2004

(in thousand of dollars)

**4. LONG-TERM DEBT** (cont'd)**Capital payments to be made over the next five fiscal years**

|      |            |
|------|------------|
| 2005 | 237        |
| 2006 | 180        |
| 2007 | 89         |
| 2008 | 21         |
| 2009 | 1          |
|      | <u>528</u> |

**5. DEFERRED CONTRIBUTIONS**

|                                            | <u>2004</u>    | <u>2003</u>    |
|--------------------------------------------|----------------|----------------|
| Opening balance                            | 11 090         | 9 371          |
| Deferred contributions for the fiscal year |                |                |
| Funding from plans                         | 5 119          | 6 508          |
| Amortization of deferred contributions     | <u>(2 823)</u> | <u>(4 789)</u> |
| Closing balance                            | <u>13 386</u>  | <u>11 090</u>  |

**6. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of CARRA participate in the Government and Public Employees Retirement Plan, the Pension Plan of Management Personnel and the Civil Service Superannuation Plan. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The CARRA's contributions charged to the year-end statement amount to \$1 663 002 (2003: \$1 276 393). CARRA's liability towards these Government plans is restricted to its contributions as an employer.

**Provision for sick leave and vacation time**

|                               | <u>2004</u>       |                      |              | <u>2003</u>  |
|-------------------------------|-------------------|----------------------|--------------|--------------|
|                               | <u>Sick leave</u> | <u>Vacation time</u> | <u>Total</u> | <u>Total</u> |
| Opening balance               | 6 667             | 2 886                | 9 553        | 9 178        |
| Plus                          |                   |                      |              |              |
| Expenditures for the year     | 962               | 2 468                | 3 430        | 3 301        |
| Less                          |                   |                      |              |              |
| Benefits paid during the year | <u>783</u>        | <u>2 326</u>         | <u>3 109</u> | <u>2 926</u> |
| Closing balance               | <u>6 846</u>      | <u>3 028</u>         | <u>9 874</u> | <u>9 553</u> |

The provision for sick leave and vacation time can be recovered in its entirety from the Secrétariat du Conseil du trésor. At December 31, 2004, the balance receivable was \$6 772 508 (2003: \$6 402 804).

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2004

(in thousand of dollars)

#### 7. CASH FLOWS

The cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

|                                                                 | 2004         | 2003         |
|-----------------------------------------------------------------|--------------|--------------|
| Cash                                                            | 558          | 469          |
| Demand deposit to the Caisse de dépôt et placement<br>du Québec | 3 109        | 3 172        |
|                                                                 | <u>3 667</u> | <u>3 641</u> |

During the fiscal year, CARRA acquired fixed assets at a cost of \$39 336 (2003: \$235 945) and took over a long-term debt of the same amount.

The interest paid by CARRA over the fiscal year was \$38 673 (2003: \$45 115).

#### 8. LOCAL FUND FOR THE RETIREMENT PREPARATION PROGRAM

CARRA has administered a retirement preparation program for employees of the Gouvernement du Québec. 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. Fund transactions break down as follows:

|                      | 2004      | 2003       |
|----------------------|-----------|------------|
| Opening fund balance | 111       | 14         |
| Revenue              | 922       | 831        |
| Expenditure          | (968)     | (734)      |
| Closing fund balance | <u>65</u> | <u>111</u> |

#### 9. FINANCIAL INSTRUMENTS

##### Credit risk

CARRA is not subject to any major credit risk vis-à-vis its debtors and the item "Owed by the pension plans", since almost all 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 would cause results that vary by approximately \$31 020.

##### 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.

## COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

### NOTES TO FINANCIAL STATEMENT (cont'd)

December 31, 2004

(in thousand of dollars)

#### 9. FINANCIAL INSTRUMENTS (cont'd)

##### Fair value of financial instruments (cont'd)

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, 2004 is \$541 462 (2003: \$716 898).

#### 10. COMMITMENTS

At December 31, 2004, the contractual commitments for the acquisition of goods and services related to equipment lease contracts and professional fees break down as follows:

|      |       |
|------|-------|
| 2005 | 3 794 |
| 2006 | 1 503 |
| 2007 | 48    |
| 2008 | 39    |
|      | <hr/> |
|      | 5 384 |
|      | <hr/> |

#### 11. COMPARATIVE FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

**COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES****MANAGEMENT'S REPORT**

---

The financial statements of CARRA were drawn up by management, which is responsible for their preparation, presentation and the significant estimates and judgements included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements. In the case of estimates, they were made to the best of management's knowledge.

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 internal audit 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 carry out an actuarial valuation every three years as well as an annual estimate of the pension obligations entered in CARRA's financial statements in accordance with generally accepted actuarial practices. They report the results of their valuation to CARRA.

Draft financial statements for the RREGOP, PPMP and PPEMO were presented to the auditing committees concerned for examination and reporting to CARRA.

The Auditor General of Québec has audited the CARRA's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committees to discuss any element concerning his audit.

Duc Vu  
Chairman of the Commission

Martin Fortier, CA  
Director of Financial  
Resources and Materials

Québec, March 31, 2005

**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 for the year ended December 31, 2004 and the statement of change in net assets available for benefits for the year then ended. This financial statement is the responsibility of Commission management. My responsibility consists in expressing an opinion on this financial statement based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, March 20, 2005

**COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC**  
(R.S.Q., c. C-33.1)

INCOME  
for the year ended March 31, 2005

|                                                            | 2005                    |                                                  |                   | 2004               |
|------------------------------------------------------------|-------------------------|--------------------------------------------------|-------------------|--------------------|
|                                                            | Current<br>transactions | Fund to<br>develop and<br>enhance the<br>capital | Total             | Total              |
| <b>REVENUE</b>                                             |                         |                                                  |                   |                    |
| Gouvernement du Québec subsidies (Note 3)                  | \$14 407 992            |                                                  | \$14 407 992      | \$16 999 185       |
| Partners' contributions (Note 4)                           | 2 001 924               |                                                  | 2 001 924         | 3 408 010          |
| Interest                                                   | 153 971                 | \$41 973                                         | 195 944           | 331 571            |
| Rental                                                     | 98 678                  |                                                  | 98 678            | 84 740             |
| Other                                                      | 71 304                  |                                                  | 71 304            | 21 094             |
|                                                            | <u>16 733 869</u>       | <u>41 973</u>                                    | <u>16 775 842</u> | <u>20 844 600</u>  |
| <b>EXPENDITURE</b>                                         |                         |                                                  |                   |                    |
| Financial assistance (Note 5)                              | 6 263 580               | 110 000                                          | 6 373 580         | 5 508 406          |
| Salaries and fringe benefits                               | 2 064 933               |                                                  | 2 064 933         | 2 334 336          |
| Property and school taxes                                  | 925 568                 |                                                  | 925 568           | 1 224 422          |
| Professional and administrative services                   | 3 275 718               | 375 191                                          | 3 650 909         | 8 526 706          |
| Transportation and communications                          | 273 300                 |                                                  | 273 300           | 297 935            |
| Maintenance and repairs                                    | 348 792                 |                                                  | 348 792           | 400 850            |
| Materials and supplies                                     | 290 580                 | 31 640                                           | 322 220           | 370 188            |
| Rent                                                       | 456 533                 |                                                  | 456 533           | 456 526            |
| Depreciation of capital assets                             | 488 582                 |                                                  | 488 582           | 810 351            |
| Financial expenses (Note 6)                                | 1 664 284               |                                                  | 1 664 284         | 1 830 604          |
|                                                            | <u>16 051 870</u>       | <u>516 831</u>                                   | <u>16 568 701</u> | <u>21 760 324</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUE<br/>OVER EXPENDITURE</b> | <u>\$681 999</u>        | <u>\$(474 858)</u>                               | <u>\$207 141</u>  | <u>\$(915 724)</u> |

The notes are an integral part of these financial statements.

## COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

CHANGE IN FUND BALANCES  
for the year ended March 31, 2005

|                                                 | 2005                                          |                 |                                                  |                    | 2004               |
|-------------------------------------------------|-----------------------------------------------|-----------------|--------------------------------------------------|--------------------|--------------------|
|                                                 | Current transactions                          |                 |                                                  |                    |                    |
|                                                 | Investments<br>in tangible<br>fixed<br>assets | Fund<br>balance | Fund to<br>develop and<br>enhance the<br>capital | Total              | Total              |
| <b>OPENING BALANCE</b>                          | \$1 059 855                                   |                 | \$2 181 268                                      | \$3 241 123        | \$4 156 847        |
| (Deficiency) excess revenue<br>over expenditure | (488 582)                                     | \$1 170 581     | (474 858)                                        | 207 141            | (915 724)          |
| Investments in tangible<br>fixed assets         | 375 766                                       | (375 766)       |                                                  |                    |                    |
|                                                 | 947 039                                       | 794 815         | 1 706 410                                        | 3 448 264          | 3 241 123          |
| Inter-fund transfer (Note 2)                    |                                               | (794 815)       | 794 815                                          |                    |                    |
| <b>CLOSING BALANCE</b>                          | <b>\$947 039</b>                              |                 | <b>\$2 501 225</b>                               | <b>\$3 448 264</b> | <b>\$3 241 123</b> |

The notes are an integral part of these financial statements.



## COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                                | 2005                    |                                                  |                                              | 2004                |
|----------------------------------------------------------------|-------------------------|--------------------------------------------------|----------------------------------------------|---------------------|
|                                                                | Current<br>transactions | Fund to<br>develop and<br>enhance the<br>capital | Elimination<br>of inter-fund<br>transactions | Total               |
| <b>ASSETS</b>                                                  |                         |                                                  |                                              |                     |
| <b>Current assets</b>                                          |                         |                                                  |                                              |                     |
| Cash on hand                                                   | \$8 806 295             | \$1 417 036                                      |                                              | \$10 223 331        |
| Accounts receivable and interest<br>accrued                    | 110 526                 | 3 077                                            |                                              | 113 603             |
| Inter-fund receivable, interest-free<br>and no repayment terms |                         | 1 266 126                                        | \$(1 266 126)                                |                     |
| Prepaid expenses                                               | 256 142                 |                                                  |                                              | 256 142             |
| Gouvernement du Québec<br>subsidies receivable                 | 2 374 014               |                                                  |                                              | 2 374 014           |
| Contributions receivable (Note 7)                              | 186 348                 |                                                  |                                              | 186 348             |
|                                                                | <u>11 733 325</u>       | <u>2 686 239</u>                                 | <u>(1 266 126)</u>                           | <u>13 153 438</u>   |
| <b>Cash reserved for acquisition<br/>of capital assets</b>     | 479 324                 |                                                  |                                              | 479 324             |
| <b>Gouvernement du Québec<br/>subsidies receivable</b>         | 25 607 193              |                                                  |                                              | 25 607 193          |
| <b>Contributions receivable (Note 7)</b>                       | 50 000                  |                                                  |                                              | 50 000              |
| <b>Deferred expenses, at amortized<br/>cost</b>                | 158 185                 |                                                  |                                              | 158 185             |
| <b>Capital assets (Note 8)</b>                                 | <u>16 491 109</u>       |                                                  |                                              | <u>16 491 109</u>   |
|                                                                | <u>\$54 519 136</u>     | <u>\$2 686 239</u>                               | <u>\$(1 266 126)</u>                         | <u>\$55 939 249</u> |
|                                                                |                         |                                                  |                                              | <u>\$55 267 694</u> |

## COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)  
as at March 31, 2005

|                                                                            | 2005                    |                                                  |                                              | 2004                |
|----------------------------------------------------------------------------|-------------------------|--------------------------------------------------|----------------------------------------------|---------------------|
|                                                                            | Current<br>transactions | Fund to<br>develop and<br>enhance the<br>capital | Elimination<br>of inter-fund<br>transactions | Total               |
| <b>LIABILITIES</b>                                                         |                         |                                                  |                                              |                     |
| <b>Current liabilities</b>                                                 |                         |                                                  |                                              |                     |
| Suppliers and other creditors<br>(Note 10)                                 | \$7 265 407             | \$185 014                                        |                                              | \$2 215 672         |
| Inter-fund receivable, interest-free<br>and no repayment terms             | 1 266 126               |                                                  | \$(1 266 126)                                |                     |
| Deferred Gouvernement du Québec<br>subsidies (Note 11)                     | 1 307 495               |                                                  |                                              | 2 673 963           |
| Deferred contributions (Note 12)                                           | 165 216                 |                                                  |                                              | 1 168 975           |
| Portion of debt due next year<br>(Note 13)                                 | 2 369 356               |                                                  |                                              | 2 386 708           |
|                                                                            | <u>12 373 600</u>       | <u>185 014</u>                                   | <u>(1 266 126)</u>                           | <u>8 445 318</u>    |
| <b>Deferred contributions (Note 12)</b>                                    | 76 133                  |                                                  |                                              | 48 652              |
| <b>Deferred contributions reserved<br/>for acquisition of fixed assets</b> | 479 324                 |                                                  |                                              | 542 443             |
| <b>Long-term debt (Note 13)</b>                                            | <u>25 134 622</u>       |                                                  |                                              | <u>27 504 001</u>   |
|                                                                            | <u>38 063 679</u>       | <u>185 014</u>                                   | <u>(1 266 126)</u>                           | <u>36 540 414</u>   |
| <b>EQUITY</b>                                                              |                         |                                                  |                                              |                     |
| Gouvernement du Québec<br>contribution (Note 14)                           | 15 508 418              |                                                  |                                              | 15 486 157          |
| Fund balance                                                               |                         |                                                  |                                              |                     |
| Invested in fixed assets                                                   | 947 039                 |                                                  |                                              | 1 059 855           |
| Fund to develop and enhance<br>the capital                                 |                         | 2 501 225                                        |                                              | 2 181 268           |
|                                                                            | <u>16 455 457</u>       | <u>2 501 225</u>                                 |                                              | <u>18 727 280</u>   |
|                                                                            | <u>\$54 519 136</u>     | <u>\$2 686 239</u>                               | <u>\$(1 266 126)</u>                         | <u>\$55 939 249</u> |
| <b>COMMITMENTS (Note 15)</b>                                               |                         |                                                  |                                              |                     |
| <b>SUBSEQUENT EVENT (Note 19)</b>                                          |                         |                                                  |                                              |                     |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Jacques Lemieux  
Pierre Boulanger

## COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

CASH FLOWS  
for the year ended March 31, 2005

|                                                                 | 2005                 |                                         | 2004                |
|-----------------------------------------------------------------|----------------------|-----------------------------------------|---------------------|
|                                                                 | Current transactions | Fund to develop and enhance the capital | Total               |
| <b>OPERATING ACTIVITIES</b>                                     |                      |                                         |                     |
| Receipts                                                        |                      |                                         |                     |
| Gouvernement du Québec subsidies                                | \$15 428 581         |                                         | \$15 428 581        |
| Partners' and clients' contributions                            | 1 182 132            |                                         | 4 698 829           |
| Inter-fund debt                                                 |                      | \$(1 080 867)                           | 1 754 693           |
| Interest earned                                                 | 145 628              | 43 138                                  | 335 538             |
| Expenditures                                                    |                      |                                         |                     |
| Suppliers and staff members                                     | (8 672 794)          | (484 238)                               | (22 549 832)        |
| Inter-fund debt                                                 | 1 080 867            |                                         | (1 754 693)         |
| Interest paid                                                   | (1 683 732)          |                                         | (1 755 212)         |
| Cash flows provided by (used for) operating activities          | 7 480 682            | (1 521 967)                             | (2 842 404)         |
| <b>INVESTMENT ACTIVITIES</b>                                    |                      |                                         |                     |
| Cash flows used for investment activities                       |                      |                                         |                     |
| Acquisition of capital assets                                   | (408 665)            |                                         | (861 305)           |
| <b>FINANCING ACTIVITIES</b>                                     |                      |                                         |                     |
| Cash reserved for the acquisition of capital assets             | 63 119               |                                         | 213 075             |
| Repayment of long-term debt                                     | (2 386 731)          |                                         | (3 341 167)         |
| Deferred contributions reserved for acquisition of fixed assets | (63 119)             |                                         | (213 075)           |
| Gouvernement du Québec contribution                             | 22 261               |                                         | 380 687             |
| Cash flows used for financing activities                        | (2 364 470)          |                                         | (2 960 480)         |
| <b>INCREASE (DECREASE) IN CASH ON HAND</b>                      | 4 707 547            | (1 521 967)                             | (6 664 189)         |
| <b>CASH ON HAND, BEGINNING OF YEAR</b>                          | 4 893 563            | 2 144 188                               | 13 701 940          |
| Inter-fund transfer                                             | (794 815)            | 794 815                                 |                     |
| <b>CASH ON HAND, END OF YEAR</b>                                | <u>\$8 806 295</u>   | <u>\$1 417 036</u>                      | <u>\$10 223 331</u> |

The notes are an integral part of these financial statements.

## COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

---

#### 1. CONSTITUTION AND PURPOSE

The Commission de la capitale nationale du Québec is a legal person established by 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 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. ACCOUNTING POLICIES

The financial statements of the Commission were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### **Fund accounting**

In accordance with 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.

##### **Proceeds accrued**

The Commission uses the deferral method to record contributions. The contributions are accrued in the fiscal year in which the related charges were incurred. The contributions of non-restricted partners are accrued as proceeds when received or receivable if the amount of the receivable can be reasonably estimated and it is relatively certain that it will be forthcoming.

##### **Gouvernement du Québec subsidies receivable**

Subsidies receivable for fixed 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.

## COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 2. ACCOUNTING POLICIES (cont'd)

### Financial assistance

Financial assistance is recorded 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

Fixed assets are recorded at acquisition cost and amortization is calculated using the following methods:

|                                                              | Method              | Rate    |
|--------------------------------------------------------------|---------------------|---------|
| Data processing equipment and software                       | Straight-line       | 33 1/3% |
| Office furniture and equipment                               | Diminishing balance | 20%     |
| Leasehold improvements                                       | Straight-line       | 20%     |
| Facilities development                                       | Straight-line       | 20%     |
| Equipment and software leased under a capital lease contract | Straight-line       | 33 1/3% |

Given its historic value, eternal character and classification by the Ministère de la Culture et des Communications, cultural property is not amortized.

### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

## 3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

|                                                     | 2005                | 2004                |
|-----------------------------------------------------|---------------------|---------------------|
| Ministère des Ressources naturelles et de la Faune: |                     |                     |
| Operations                                          | \$11 248 428        | \$11 775 412        |
| Repayment of interest on the long-term debt         | 1 573 319           | 1 709 056           |
| Specific projects                                   |                     |                     |
| Development of Avenue Honoré-Mercier                | 9 736               | 199 000             |
| Enhancement of National Assembly building           | 549 457             | 122 358             |
| Public investment acceleration plan                 | 933 485             | 3 116 965           |
| Conseil du trésor                                   | 24 687              |                     |
| Ministère de la Culture et des Communications       |                     |                     |
| Repayment of interest on the long-term debt         | 68 880              | 76 394              |
|                                                     | <u>\$14 407 992</u> | <u>\$16 999 185</u> |

## COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. PARTNERS' CONTRIBUTIONS**

|                                                   | 2005               | 2004               |
|---------------------------------------------------|--------------------|--------------------|
| Québec City                                       | \$1 199 985        | \$2 502 603        |
| Assemblée nationale                               | 516 208            | 20 815             |
| Hydro-Québec                                      | 103 030            | 364 784            |
| Société immobilière du Québec                     | 27 288             | 173 357            |
| Ministère des Transports                          | 29 950             | 12 500             |
| Ministère de l'Éducation                          | 20 000             | 15 000             |
| Société des traversiers du Québec                 | 5 000              | 24 284             |
| Société des établissements de plein air du Québec | 326                | 16 759             |
| Séminaire de Québec                               |                    | 250 000            |
| Other                                             | 100 137            | 27 908             |
|                                                   | <u>\$2 001 924</u> | <u>\$3 408 010</u> |

**5. FINANCIAL ASSISTANCE**

|                                                            | 2005               | 2004               |
|------------------------------------------------------------|--------------------|--------------------|
| Ville de Québec                                            | \$5 587 678        | \$4 820 000        |
| Société des jeux mondiaux policiers pompiers – Québec 2005 | 400 000            |                    |
| Québec schools                                             | 162 510            | 197 585            |
| Télé-Québec                                                | 50 000             | 50 000             |
| Assemblée nationale                                        | 12 500             |                    |
| Ministère des Transports                                   |                    | 25 205             |
| Musée national des beaux-arts du Québec                    | 5 000              | 5 000              |
| Other                                                      | 155 892            | 410 616            |
|                                                            | <u>\$6 373 580</u> | <u>\$5 508 406</u> |

**6. FINANCIAL EXPENSES**

|                                   | 2005               | 2004               |
|-----------------------------------|--------------------|--------------------|
| Amortization of deferred expenses | \$22 085           | \$22 085           |
| Interest on the long-term debt    | 1 642 199          | 1 808 519          |
|                                   | <u>\$1 664 284</u> | <u>\$1 830 604</u> |

**7. CONTRIBUTIONS RECEIVABLE**

|                                                     | 2005             | 2004             |
|-----------------------------------------------------|------------------|------------------|
| Ville de Québec                                     | \$136 740        | \$24 185         |
| Ministère de l'Éducation *                          | 30 000           |                  |
| Société immobilière du Québec *                     | 3 000            |                  |
| Hydro-Québec *                                      |                  | 168 611          |
| Société des établissements de plein air du Québec * |                  | 16 759           |
| Assemblée nationale *                               |                  | 9 669            |
| Other                                               | 66 608           | 54 000           |
|                                                     | <u>236 348</u>   | <u>273 224</u>   |
| Contributions payable in the coming fiscal year     | <u>(186 348)</u> | <u>(233 224)</u> |
|                                                     | <u>\$50 000</u>  | <u>\$40 000</u>  |

\* At March 31, 2005, \$33 000 represented the amount of contributions receivable from related parties (2004: \$195 039).

## COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**8. CAPITAL ASSETS**

|                                                             | 2005                |                          | 2004                |
|-------------------------------------------------------------|---------------------|--------------------------|---------------------|
|                                                             | Cost                | Accumulated depreciation | Total               |
| Land                                                        | \$7 968 293         |                          | \$7 946 032         |
| Parc du Bois-de-Coulonge                                    | 1                   |                          | 1                   |
| Parc de l'Amérique Française                                | 1                   |                          | 1                   |
| Parc du Cavalier du Moulin *                                | 1                   |                          | 1                   |
| Data processing equipment and software                      | 354 026             | \$313 548                | 57 702              |
| Office furniture and equipment                              | 339 605             | 239 711                  | 123 461             |
| Leasehold improvements                                      | 127 004             | 61 767                   | 90 638              |
| Facilities development                                      | 4 534 901           | 4 021 339                | 786 400             |
| Developments in progress                                    | 1 019 571           |                          | 1 019 571           |
| Equipment and software leased under capital lease contracts |                     |                          | 1 969               |
|                                                             | 14 343 403          | 4 636 365                | 10 025 775          |
| Cultural property                                           |                     |                          |                     |
| Domaine de Maizerets                                        | 6 545 250           |                          | 6 545 250           |
| Domaine Cataract                                            | 238 821             |                          | 1                   |
|                                                             | 6 784 071           |                          | 6 545 251           |
|                                                             | <u>\$21 127 474</u> | <u>\$4 636 365</u>       | <u>\$16 571 026</u> |

\* During the fiscal year, the Commission acquired Parc du Cavalier du Moulin from the Société immobilière du Québec for a nominal value of \$1.

**9. BANK BORROWING**

The Commission has an authorized credit margin of \$500 000 bearing interest at the prime rate and renewable annually but unused at March 31, 2005.

**10. SUPPLIERS AND OTHER CREDITORS**

|                                                     | 2005               | 2004               |
|-----------------------------------------------------|--------------------|--------------------|
| Suppliers – current operations                      | \$6 535 931        | \$1 297 088        |
| Suppliers – Fund to develop and enhance the capital | 185 014            | 152 421            |
| Salaries and fringe benefits                        | 46 497             | 12 137             |
| Vacation time payable                               | 190 858            | 219 155            |
| Sick leave payable                                  | 25 676             | 26 893             |
| Interest payable on long-term debt                  | 466 445            | 507 978            |
|                                                     | <u>\$7 450 421</u> | <u>\$2 215 672</u> |

At March 31, 2005, \$102 626 represented amounts payable to related parties (2004: \$58 704).

**COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. 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. The changes in the deferred subsidies are as follows:

|                                                   | <u>2005</u>                 | <u>2004</u>                   |
|---------------------------------------------------|-----------------------------|-------------------------------|
| Opening balance                                   | \$2 673 963                 | \$5 538 057                   |
| Subsidies received in the fiscal year             | <u>743 797</u><br>3 417 760 | <u>1 300 541</u><br>6 838 598 |
| Subsidies recorded as proceeds of the fiscal year | <u>(2 110 265)</u>          | <u>(4 164 635)</u>            |
| Closing balance                                   | <u>\$1 307 495</u>          | <u>\$2 673 963</u>            |

**12. 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. The changes in the deferred contributions are as follows:

|                                                                                                | <u>2005</u>                  | <u>2004</u>                   |
|------------------------------------------------------------------------------------------------|------------------------------|-------------------------------|
| Opening balance                                                                                | \$1 217 627                  | \$94 680                      |
| Contributions recorded as proceeds of fiscal year                                              | <u>(1 158 085)</u><br>59 542 | <u>(61 497)</u><br>33 183     |
| Contributions received in the fiscal year destined to cover the charges of future fiscal years | <u>181 807</u><br>241 349    | <u>1 184 444</u><br>1 217 627 |
| Contributions destined to cover expenses for the next fiscal year                              | <u>(165 216)</u>             | <u>(1 168 975)</u>            |
| Closing balance                                                                                | <u>\$76 133</u>              | <u>\$48 652</u>               |

At March 31, 2005, \$64 158 represented deferred contributions from related parties (2004: \$26 573).



## COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**13. LONG-TERM DEBT**

|                                                                                                                                                       | Effective<br>rate | 2005                | 2004                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------|---------------------|
| <b>Borrowings on note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec:</b>                            |                   |                     |                     |
| 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 * | 5.51 %            | \$4 108 761         | \$4 451 158         |
| 6.06% repayable in half-yearly instalments of \$345 842 on the principal of the borrowing, maturing on December 1, 2010 *                             | 6.21              | 4 150 104           | 4 841 788           |
| 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 * | 6.16              | 2 480 000           | 2 686 667           |
| 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 *  | 6.15              | 1 848 000           | 1 932 000           |
| 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 * | 6.21              | 3 927 190           | 4 151 601           |
| 4.10%, repayable in half-yearly instalments of \$52 447 on the principal of the borrowing and a final instalment of \$1 678 312 on March 5, 2007 *    | 4.24              | 1 835 654           | 1 940 549           |
| 5.64%, repayable in half-yearly instalments of \$318 623 on the principal of the borrowing, maturing on January 16, 2018                              | 5.78              | 8 284 204           | 8 921 450           |
| <b>Borrowings guaranteed by the Ministère de la Culture et des Communications</b>                                                                     |                   |                     |                     |
| 7.60%, repayable in monthly instalments of \$10 034, principal and interest maturing on April 5, 2015 *                                               | 7.60              | 846 306             | 900 155             |
| 6.16%, repayable in monthly instalments of \$1 198, principal and interest maturing on December 12, 2006 *                                            | 6.16              | 23 759              | 36 246              |
| Borrowing repaid during the fiscal year                                                                                                               |                   | 29 095              |                     |
|                                                                                                                                                       |                   | <u>27 503 978</u>   | <u>29 890 709</u>   |
| Portion maturing in the next fiscal year                                                                                                              |                   | <u>(2 369 356)</u>  | <u>(2 386 708)</u>  |
|                                                                                                                                                       |                   | <u>\$25 134 622</u> | <u>\$27 504 001</u> |

\* Capital payments on these borrowings are made annually from Gouvernement du Québec and Ministère de la Culture et des Communications subsidies slated for this purpose.

Capital payments for the next five fiscal years are as follows:

|      |             |
|------|-------------|
| 2006 | \$2 369 356 |
| 2007 | 3 996 646   |
| 2008 | 2 259 090   |
| 2009 | 2 262 999   |
| 2010 | 2 274 037   |

**COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**14. GOUVERNEMENT DU QUÉBEC CONTRIBUTION**

The amount of the Gouvernement du Québec contribution corresponds to the cost of property, cultural property and development in progress, funded by long-term borrowings whose capital payments are covered by Gouvernement du Québec subsidies. The contribution breaks down as follows:

|                         | 2005                | 2004                |
|-------------------------|---------------------|---------------------|
| Land                    | \$7 943 596         | \$7 921 335         |
| Cultural property       | 6 545 251           | 6 545 251           |
| Development in progress | 1 019 571           | 1 019 571           |
|                         | <u>\$15 508 418</u> | <u>\$15 486 157</u> |

**15. 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. As at March 31, 2005, the Commission had commitments for the purchase of goods and services over the next fiscal year totalling \$829 672 (2004: \$2 838 275).

**16. FUTURE FRINGE BENEFITS**

The staff members of the Commission participate in the Pension Plan of Management Personnel (PPMP), Government and Public Employees Retirement Plan (RREGOP) or Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's liability towards these Government plans is restricted to its contributions as an employer. Its contributions charged to the year-end statement amount to \$69 842 (2004: \$65 114).

**Provision for vacation time and sick leave**

|                                          | 2005            |                  |                  | 2004             |
|------------------------------------------|-----------------|------------------|------------------|------------------|
|                                          | Sick leave      | Vacation time    | Total            | Total            |
| Opening balance                          | \$26 893        | \$219 155        | \$246 048        | \$189 282        |
| Charge for the fiscal year               | 34 272          | 180 034          | 214 306          | 232 881          |
| Benefits paid throughout the fiscal year | <u>(35 489)</u> | <u>(208 331)</u> | <u>(243 820)</u> | <u>(176 115)</u> |
| Closing balance                          | \$25 676        | \$190 858        | \$216 534        | \$246 048        |

**17. FINANCIAL INSTRUMENTS**

The fair value of short-term assets and liabilities and cash on hand reserved for the acquisition of fixed assets corresponds to a reasonable estimate of their fair value.

The fair value of Gouvernement du Québec subsidies receivable and the fair value of the long-term debt are determined by capitalizing future cash flows at capitalization rates representing the rates the Commission could have as at the date of the financial statement for borrowings with similar conditions and maturity dates.

The fair market value of the contributions receivable and deferred over the long term is established by capitalizing future cash flows at a capitalization rate representing the rates the Commission might use on the date of the financial statement for investments with similar conditions and maturity dates.

## COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 17. FINANCIAL INSTRUMENTS (cont'd)

The following table shows the book value and fair value of the other financial instruments.

|                                           | 2005          |               | 2004          |               |
|-------------------------------------------|---------------|---------------|---------------|---------------|
|                                           | Book<br>value | Fair<br>value | Book<br>value | Fair<br>value |
| Gouvernement du Québec subsidy receivable | \$27 981 207  | \$30 278 402  | \$30 368 264  | \$32 587 038  |
| Contributions receivable                  | 236 348       | 231 598       | 273 224       | 268 696       |
| Deferred contributions                    | 241 349       | 234 629       | 1 217 627     | 1 212 632     |
| Long-term debt                            |               |               |               |               |
| Borrowings from the Financing Fund        | 26 633 913    | 28 842 356    | 28 925 213    | 31 019 472    |
| Borrowing guaranteed by the Ministère     | 870 065       | 963 475       | 965 496       | 1 094 995     |

### 18. 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 either joint control or significant influence by it.

The Commission 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. Fixed asset purchases and sales between related parties are recorded at the assignor's book value and disclosed in Note 8.

### 19. SUBSEQUENT EVENT

On May 9, 2005, the Commission signed a purchase offer for the acquisition of land in the amount of \$2 292 000. The Commission made the commitment vis-à-vis the seller to deposit the entire amount in trust no later than December 5, 2005. The Commission will become the owner of the said land in fiscal 2006-2007 only.

### 20. COMPARATIVE FIGURES

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Commission de la capitale nationale du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors oversees the way in which management fulfils its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Pierre Boulanger  
President and Chief Executive Officer

Hélène Turcotte  
Director, Administrative Affairs

Québec, June 23, 2005

**COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Commission de la capitale nationale du Québec as at March 31, 2005, the statement of income, the statement of change in fund balances and the statement of cash flows for the year then ended. These financial statements are the responsibility of Commission management. It is my responsibility to express an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 23, 2005

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC**

R.S.Q., c. R-20

**GENERAL FUND****REVENUE AND EXPENDITURE AND FUND BALANCE**

for the year ended December 31, 2004

(in thousands of dollars)

|                                                                    | <u>2004</u>         | <u>2003</u>           |
|--------------------------------------------------------------------|---------------------|-----------------------|
| <b>REVENUE</b>                                                     |                     |                       |
| Levies                                                             | 54 425              | 48 142                |
| Service fees                                                       | 6 958               | 6 557                 |
| Optional participation                                             | 665                 | 639                   |
| Penalties                                                          | 1 035               | 1 463                 |
| Transfer of unidentified or unclaimed compensation and claims      | 72                  | 14                    |
| Investment income (Note 4)                                         | 874                 | 811                   |
| Other                                                              | <u>936</u>          | <u>581</u>            |
|                                                                    | <u>64 965</u>       | <u>58 207</u>         |
| <b>EXPENDITURE</b>                                                 |                     |                       |
| Employee remuneration and personnel management                     | 62 925              | 59 856                |
| Administrative expenses                                            | 13 780              | 13 703                |
| Office space                                                       | 3 151               | 3 032                 |
| Depreciation of fixed assets                                       | 2 829               | 2 314                 |
| Advertising and public relations                                   | 604                 | 627                   |
| Contribution to the Construction Industry Commissioner's Fund      | 1 000               | 963                   |
| Other expenses                                                     | <u>366</u>          | <u>1 031</u>          |
| <b>Expenditure before the following items</b>                      | 84 655              | 81 526                |
| Expenditure charge to supplemental pension and insurance plans     | (15 886)            | (14 346)              |
| Expenditure charged to the Training Fund and the Training Plan     | (1 453)             | (1 210)               |
| Transfer of interest from the Holiday and Vacation Pay Fund        | (3 747)             | (2 912)               |
| Gouvernement du Québec subsidies to help fight black market labour | <u>(9 543)</u>      | <u>(8 382)</u>        |
|                                                                    | <u>54 026</u>       | <u>54 676</u>         |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                             | 10 939              | 3 531                 |
| <b>FUND BALANCE DEFICIT, BEGINNING OF YEAR</b>                     | <u>(4 397)</u>      | <u>(7 928)</u>        |
| <b>CLOSING FUND BALANCE (DEFICIT)</b>                              | <u><u>6 542</u></u> | <u><u>(4 397)</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, 2004  
 (in thousands of dollars)

|                                                                                  | <u>2004</u>   | <u>2003</u>    |
|----------------------------------------------------------------------------------|---------------|----------------|
| <b>ASSETS</b>                                                                    |               |                |
| <b>Current assets</b>                                                            |               |                |
| Cash on hand                                                                     | 682           |                |
| Investment and accrued revenue (Note 5.2a)                                       | 62 038        | 29 193         |
| Levies receivable                                                                | 5 091         | 4 618          |
| Accounts receivable                                                              | 2 568         | 1 761          |
| Gouvernement du Québec subsidies receivable                                      | 3 550         | 3 350          |
| Prepaid expenses                                                                 | 484           | 261            |
|                                                                                  | <u>74 413</u> | <u>39 183</u>  |
| <b>Gouvernement du Québec subsidies receivable</b>                               |               | 3 550          |
| <b>Fixed assets (Note 7)</b>                                                     | <u>12 673</u> | <u>11 206</u>  |
|                                                                                  | <u>87 086</u> | <u>53 939</u>  |
| <b>LIABILITIES</b>                                                               |               |                |
| <b>Current liabilities</b>                                                       |               |                |
| Bank overdraft                                                                   |               | 477            |
| Bank borrowing (Note 8)                                                          | 20 250        |                |
| Accounts payable and accrued expenses                                            | 12 445        | 11 115         |
| Deferred revenue                                                                 | 354           | 405            |
| Deferred Gouvernement du Québec subsidies                                        | 7 480         | 7 323          |
| Obligation resulting from a capital-lease contract<br>(Note 9)                   | 239           |                |
|                                                                                  | <u>40 768</u> | <u>19 320</u>  |
| <b>Deferred Gouvernement du Québec subsidies</b>                                 |               | 3 550          |
| <b>Obligation resulting from a capital-lease contract<br/>(Note 9)</b>           | 244           |                |
| <b>Liability for benefits accrued under future fringe benefits<br/>(Note 18)</b> | <u>39 532</u> | <u>35 466</u>  |
|                                                                                  | 80 544        | 58 336         |
| <b>FUND BALANCE (DEFICIT)</b>                                                    | <u>6 542</u>  | <u>(4 397)</u> |
|                                                                                  | <u>87 086</u> | <u>53 939</u>  |
| <b>COMMITMENTS (Note 16)</b>                                                     |               |                |
| <b>CONTINGENCIES (Note 17)</b>                                                   |               |                |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 André Ménard  
 Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****GENERAL FUND****CASH FLOWS**

for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                    | <u>2004</u>          | <u>2003</u>         |
|--------------------------------------------------------------------|----------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                                        |                      |                     |
| Excess revenue over expenditure                                    | 10 939               | 3 531               |
| Adjustments for:                                                   |                      |                     |
| Depreciation of fixed assets                                       | 2 829                | 2 314               |
| Loss on disposal of fixed assets                                   | 115                  | 62                  |
| Increase in benefits accrued under future fringe benefits          | <u>4 066</u>         | <u>4 044</u>        |
|                                                                    | 17 949               | 9 951               |
| Change in non-cash elements of the Working Capital Fund (Note 10)  | <u>(267)</u>         | <u>92</u>           |
| Cash flows related to operating activities                         | <u>17 682</u>        | <u>10 043</u>       |
| <b>INVESTMENT ACTIVITIES</b>                                       |                      |                     |
| Acquisition of investments                                         | (6 560)              | (11 105)            |
| Acquisition of fixed assets                                        | (4 412)              | (2 966)             |
| Proceeds from disposal of fixed assets                             | <u>1</u>             | <u>10</u>           |
| Cash flows related to investment activities                        | <u>(10 971)</u>      | <u>(14 061)</u>     |
| <b>FINANCING ACTIVITIES</b>                                        |                      |                     |
| Increase in the obligation resulting from a capital-lease contract | <u>483</u>           | <u></u>             |
| Cash flows related to financing activities                         | <u>483</u>           | <u></u>             |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>            | 7 194                | (4 018)             |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING</b>                  | <u>8 897</u>         | <u>12 915</u>       |
| <b>CASH AND CASH EQUIVALENTS AT THE END (Note 10)</b>              | <u><u>16 091</u></u> | <u><u>8 897</u></u> |

The notes are an integral part of these financial statements.



**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****HOLIDAY AND VACATION PAY FUND****ASSETS AND LIABILITIES**

as at December 31, 2004

(in thousands of dollars)

|                                                                  | <u>2004</u>    | <u>2003</u>       |
|------------------------------------------------------------------|----------------|-------------------|
| <b>ASSETS</b>                                                    |                |                   |
| Investments and accrued revenue (Note 5.2a)                      | 180 239        | 164 044           |
| Vacation pay receivable                                          | <u>27 938</u>  | <u>23 206</u>     |
|                                                                  | <u>208 177</u> | <u>187 250</u>    |
| <b>LIABILITIES</b>                                               |                |                   |
| Outstanding cheques less cash on hand                            | 1 734          | 1 712             |
| Accounts payable                                                 | 447            | 621               |
| Holiday and vacation pay, payable to employees                   | 205 875        | 184 917           |
| Liabilities related to derivative financial instruments (Note 6) | <u>121</u>     | <u>          </u> |
|                                                                  | <u>208 177</u> | <u>187 250</u>    |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 André Ménard  
 Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****HOLIDAY AND VACATION PAY FUND****CHANGES IN ASSETS**

for the year ended December 31, 2004

(in thousands of dollars)

|                                                                                  | <u>2004</u>           | <u>2003</u>           |
|----------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>SOURCE OF FUNDS</b>                                                           |                       |                       |
| Contributions received for compulsory annual<br>vacation and general holidays    | 365 442               | 328 928               |
| Investment income                                                                | 11 129                | 7 786                 |
| Increase in liabilities related to derivative financial instruments              | <u>121</u>            |                       |
|                                                                                  | <u>376 692</u>        | <u>336 714</u>        |
| <b>USE OF FUNDS</b>                                                              |                       |                       |
| Decrease in outstanding cheques less cash on hand<br>and accounts payable        | 152                   | 120                   |
| Payments to employees                                                            |                       |                       |
| Compulsory annual vacation and holiday compensation                              | 345 858               | 308 438               |
| Interest on compensation paid                                                    | 5 786                 | 299                   |
| Repayment of interest on prepaid vacation and holiday leave                      |                       | 1 640                 |
| Transfer to General Fund                                                         |                       |                       |
| Interest                                                                         | 3 747                 | 2 912                 |
| Compensation payable to unidentified employees<br>or unclaimed after three years | 101                   | 94                    |
| Losses on derivative financial instruments                                       | <u>121</u>            |                       |
|                                                                                  | <u>355 765</u>        | <u>313 503</u>        |
| <b>INCREASE IN ASSETS</b>                                                        | 20 927                | 23 211                |
| <b>ASSETS, BEGINNING OF YEAR</b>                                                 | <u>187 250</u>        | <u>164 039</u>        |
| <b>ASSETS, END OF YEAR</b>                                                       | <u><u>208 177</u></u> | <u><u>187 250</u></u> |

The notes are an integral part of these financial statements.

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****BACK PAY FUND****ASSETS AND LIABILITIES**

as at December 31, 2004

(in thousands of dollars)

|                                       | <u>2004</u>       | <u>2003</u>  |
|---------------------------------------|-------------------|--------------|
| <b>ASSETS</b>                         |                   |              |
| Investments (Note 5.2a)               | 1 161             | 1 229        |
| Claims from employers receivable      | 1 068             | 2 309        |
| Accounts receivable                   | <u>          </u> | <u>16</u>    |
|                                       | <u>2 229</u>      | <u>3 554</u> |
| <br><b>LIABILITIES</b>                |                   |              |
| Outstanding cheques less cash on hand | 361               | 213          |
| Accounts payable                      | 31                |              |
| Claims payable to employees           | <u>1 837</u>      | <u>3 341</u> |
|                                       | <u>2 229</u>      | <u>3 554</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 André Ménard  
 Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****BACK PAY FUND**

CHANGES IN ASSETS  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                                                                    | <u>2004</u>         | <u>2003</u>         |
|--------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>SOURCE OF FUNDS</b>                                                                                             |                     |                     |
| Claims collected from employers                                                                                    | 1 248               | 2 432               |
| Increase in outstanding cheques less cash on hand<br>and accounts payable                                          | 179                 | 30                  |
| Investment income                                                                                                  | <u>26</u>           | <u>30</u>           |
|                                                                                                                    | <u>1 453</u>        | <u>2 492</u>        |
| <b>USE OF FUNDS</b>                                                                                                |                     |                     |
| Claims paid to employees                                                                                           | 2 807               | 2 777               |
| Transfer to the General Fund of collected claims payable<br>to employees who remain unidentified after three years | <u>(29)</u>         | <u>(80)</u>         |
|                                                                                                                    | <u>2 778</u>        | <u>2 697</u>        |
| <b>DECREASE IN ASSETS</b>                                                                                          | (1 325)             | (205)               |
| <b>OPENING ASSETS</b>                                                                                              | <u>3 554</u>        | <u>3 759</u>        |
| <b>CLOSING ASSETS</b>                                                                                              | <u><u>2 229</u></u> | <u><u>3 554</u></u> |

The notes are an integral part of these financial statements.

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****EMPLOYER CONTRIBUTIONS FUND****ASSETS AND LIABILITIES**

as at December 31, 2004

(in thousands of dollars)

|                                   | <u>2004</u>  | <u>2003</u>  |
|-----------------------------------|--------------|--------------|
| <b>ASSETS</b>                     |              |              |
| Investments (Note 4 and 5.2a)     | 870          | 1 610        |
| Advances on contributions         | 130          | 130          |
| Employer contributions receivable | <u>476</u>   | <u>391</u>   |
|                                   | <u>1 476</u> | <u>2 131</u> |
| <b>LIABILITIES</b>                |              |              |
| Accounts payable                  | 4            | 7            |
| Contributions refundable          | <u>1 472</u> | <u>2 124</u> |
|                                   | <u>1 476</u> | <u>2 131</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Ménard  
Pierre Labelle

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**CHANGES IN ASSETS**  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                      | <u>2004</u>   | <u>2003</u>  |
|--------------------------------------|---------------|--------------|
| <b>SOURCE OF FUNDS</b>               |               |              |
| Contributions collected              | <u>9 708</u>  | <u>9 003</u> |
| <b>USE OF FUNDS</b>                  |               |              |
| Contribution refunds                 | 10 360        | 8 389        |
| Decrease in accounts payable         | <u>3</u>      | <u>7</u>     |
|                                      | <u>10 363</u> | <u>8 396</u> |
| <b>(DECREASE) INCREASE OF ASSETS</b> | (655)         | 607          |
| <b>ASSETS, BEGINNING OF YEAR</b>     | <u>2 131</u>  | <u>1 524</u> |
| <b>ASSETS, END OF YEAR</b>           | <u>1 476</u>  | <u>2 131</u> |

The notes are an integral part of these financial statements.

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****UNION ASSESSMENT FUND****ASSETS AND LIABILITIES**

as at December 31, 2004

(in thousands of dollars)

|                                       | <u>2004</u>   | <u>2003</u>   |
|---------------------------------------|---------------|---------------|
| <b>ASSETS</b>                         |               |               |
| Investments (Notes 4 and 5.2a)        | 4 322         | 5 711         |
| Advances on contributions             | 1 599         | 1 506         |
| Employee contributions receivable     | <u>4 231</u>  | <u>3 488</u>  |
|                                       | <u>10 152</u> | <u>10 705</u> |
| <b>LIABILITIES</b>                    |               |               |
| Outstanding cheques less cash on hand | 1 060         | 440           |
| Accounts payable                      | 43            | 69            |
| Assessments to be remitted            | <u>9 049</u>  | <u>10 196</u> |
|                                       | <u>10 152</u> | <u>10 705</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 André Ménard  
 Pierre Labelle

**CHANGES IN ASSETS**

for the year ended December 31, 2004

(in thousands of dollars)

|                                                                           | <u>2004</u>   | <u>2003</u>   |
|---------------------------------------------------------------------------|---------------|---------------|
| <b>SOURCE OF FUNDS</b>                                                    |               |               |
| Assessments collected                                                     | 53 840        | 49 106        |
| Increase in advances on contributions                                     | 93            | 195           |
| Increase in outstanding cheques less<br>cash on hand and accounts payable | <u>594</u>    | <u>318</u>    |
|                                                                           | <u>54 527</u> | <u>49 619</u> |
| <b>USED OF FUNDS</b>                                                      |               |               |
| Assessments remitted                                                      | <u>55 080</u> | <u>47 512</u> |
|                                                                           | <u>55 080</u> | <u>47 512</u> |
| <b>(DECREASE) INCREASE IN ASSETS</b>                                      | (553)         | 2 107         |
| <b>ASSETS, BEGINNING OF YEAR</b>                                          | <u>10 705</u> | <u>8 598</u>  |
| <b>ASSETS, END OF YEAR</b>                                                | <u>10 152</u> | <u>10 705</u> |

The notes are an integral part of these financial statements.

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****RESIDENTIAL SECTOR CONTRIBUTION FUND**
**BALANCE SHEET**  
 as at December 31, 2004  
 (in thousands of dollars)

|                                   | <u>2004</u> | <u>2003</u> |
|-----------------------------------|-------------|-------------|
| <b>ASSETS</b>                     |             |             |
| Investments (Note 5.2a)           | 63          | 63          |
| Employer contributions receivable | <u>142</u>  | <u>143</u>  |
|                                   | <u>205</u>  | <u>206</u>  |
| <b>LIABILITY</b>                  |             |             |
| Contributions payable             | <u>205</u>  | <u>206</u>  |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 André Ménard  
 Pierre Labelle

**CHANGES IN ASSETS**  
 for the year ended December 31, 2004  
 (in thousands of dollars)

|                                      | <u>2004</u> | <u>2003</u> |
|--------------------------------------|-------------|-------------|
| <b>SOURCE OF FUNDS</b>               |             |             |
| Employer contributions               | 880         | 700         |
| <b>USED OF FUNDS</b>                 |             |             |
| Payment of contributions             | <u>881</u>  | <u>643</u>  |
| <b>(DECREASE) INCREASE IN ASSETS</b> | (1)         | 57          |
| <b>ASSETS, BEGINNING OF YEAR</b>     | <u>206</u>  | <u>149</u>  |
| <b>ASSETS, END OF YEAR</b>           | <u>205</u>  | <u>206</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, 2004  
(in thousands of dollars)

|                                       | <u>2004</u>  | <u>2003</u>  |
|---------------------------------------|--------------|--------------|
| <b>ASSETS</b>                         |              |              |
| Investments (Note 4 and 5.2a)         | 5 388        | 4 058        |
| Employer contributions receivable     | 262          | 226          |
| Recovery of compensation receivable   | <u>946</u>   | <u>1 680</u> |
|                                       | <u>6 596</u> | <u>5 964</u> |
| <b>LIABILITIES</b>                    |              |              |
| Outstanding cheques less cash on hand | 7            | 1            |
| Accounts payable                      | 2            | 3            |
| Compensation payable to employees     | <u>1 115</u> | <u>1 197</u> |
|                                       | <u>1 124</u> | <u>1 201</u> |
| <b>EQUITY</b>                         |              |              |
|                                       | <u>5 472</u> | <u>4 763</u> |
|                                       | <u>6 596</u> | <u>5 964</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Ménard  
Pierre Labelle



**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****SPECIAL COMPENSATION FUND**

CHANGES IN EQUITY  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                        | <u>2004</u>         | <u>2003</u>         |
|----------------------------------------|---------------------|---------------------|
| <b>SOURCE OF FUNDS</b>                 |                     |                     |
| Employer contributions                 | 2 259               | 2 058               |
| Compensation recovered                 |                     | 1 104               |
| Penalties                              | <u>178</u>          | <u>168</u>          |
|                                        | <u>2 437</u>        | <u>3 330</u>        |
| <b>USE OF FUNDS</b>                    |                     |                     |
| Provision for recovery of compensation | 332                 |                     |
| Compensation paid to employees         | <u>1 396</u>        | <u>1 547</u>        |
|                                        | <u>1 728</u>        | <u>1 547</u>        |
| <b>INCREASE IN EQUITY</b>              | 709                 | 1 783               |
| <b>EQUITY, BEGINNING OF YEAR</b>       | <u>4 763</u>        | <u>2 980</u>        |
| <b>EQUITY, END OF YEAR</b>             | <u><u>5 472</u></u> | <u><u>4 763</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, 2004  
(in thousands of dollars)

|                                             | <u>2004</u>  | <u>2003</u>  |
|---------------------------------------------|--------------|--------------|
| <b>ASSETS</b>                               |              |              |
| Investments and accrued revenue (Note 5.2a) | 2 844        | 2 452        |
| Employer contributions receivable           | <u>75</u>    | <u>85</u>    |
|                                             | <u>2 919</u> | <u>2 537</u> |
| <b>LIABILITIES</b>                          |              |              |
| Employee compensation payable               | 16           | 14           |
| <b>EQUITY</b> (Note 11)                     | <u>2 903</u> | <u>2 523</u> |
|                                             | <u>2 919</u> | <u>2 537</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Ménard  
Pierre Labelle

CHANGES IN EQUITY  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                   | <u>2004</u>  | <u>2003</u>  |
|-----------------------------------|--------------|--------------|
| <b>SOURCE OF FUNDS</b>            |              |              |
| Employer contributions            | 527          | 504          |
| Investment income                 | <u>56</u>    | <u>67</u>    |
|                                   | 583          | 571          |
| <b>USED OF FUNDS</b>              |              |              |
| Assessments remitted to employees | <u>203</u>   | <u>196</u>   |
| <b>INCREASE IN EQUITY</b>         | 380          | 375          |
| <b>EQUITY, BEGINNING OF YEAR</b>  | <u>2 523</u> | <u>2 148</u> |
| <b>EQUITY, END OF YEAR</b>        | <u>2 903</u> | <u>2 523</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, 2004  
(in thousands of dollars)

|                                                                  | <u>2004</u>    | <u>2003</u>    |
|------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                    |                |                |
| Investments and accrued revenue (Note 5.2a)                      | 132 487        | 117 603        |
| Employer contributions receivable                                | 1 580          | 1 296          |
| Prepaid training activity expenses                               | 1 392          | 675            |
| Reusable training materials                                      | <u>1 419</u>   | <u>1 255</u>   |
|                                                                  | <u>136 878</u> | <u>120 829</u> |
| <b>LIABILITIES</b>                                               |                |                |
| Outstanding cheque less cash on hand                             | 41             | 40             |
| Accounts payable                                                 | 16             | 21             |
| Training activities payable                                      | 2 989          | 2 688          |
| Liabilities related to derivative financial instruments (Note 6) | <u>268</u>     | <u>2 749</u>   |
|                                                                  | 3 314          | 2 749          |
| <b>EQUITY</b>                                                    | <u>133 564</u> | <u>118 080</u> |
|                                                                  | <u>136 878</u> | <u>120 829</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Ménard  
Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****TRAINING PLAN FUND – WORK SECTORS**

CHANGES IN EQUITY  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                            | <u>2004</u>    | <u>2003</u>    |
|--------------------------------------------|----------------|----------------|
| <b>SOURCE OF FUNDS</b>                     |                |                |
| Employer contributions                     | 19 321         | 17 871         |
| Investment income                          | <u>13 628</u>  | <u>6 440</u>   |
|                                            | <u>32 949</u>  | <u>24 311</u>  |
| <b>USED OF FUNDS</b>                       |                |                |
| Cost of training activities                | 10 129         | 8 754          |
| Training incentives                        | 3 937          | 3 741          |
| Contribution to C.G.U.F.F.*                | 1 980          | 779            |
| Expenses charged by the General Fund       | 1 151          | 974            |
| Losses on derivative financial instruments | <u>268</u>     | <u></u>        |
|                                            | <u>17 465</u>  | <u>14 248</u>  |
| <b>INCREASE IN EQUITY</b>                  | 15 484         | 10 063         |
| <b>EQUITY, BEGINNING OF YEAR</b>           | <u>118 080</u> | <u>108 017</u> |
| <b>EQUITY, END OF YEAR</b>                 | <u>133 564</u> | <u>118 080</u> |

\* Training Fund use management committee

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, 2004  
(in thousands of dollars)

|                                                                  | <u>2004</u>   | <u>2003</u>   |
|------------------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                                    |               |               |
| Investments and accrued revenue (Note 5.2a)                      | 23 071        | 19 824        |
| Employer contributions receivable                                | <u>330</u>    | <u>290</u>    |
|                                                                  | <u>23 401</u> | <u>20 114</u> |
| <b>LIABILITIES</b>                                               |               |               |
| Accounts payable                                                 | 3             | 5             |
| Training activities payable                                      | 32            | 1             |
| Liabilities related to derivative financial instruments (Note 6) | <u>47</u>     | <u>6</u>      |
|                                                                  | 82            | 6             |
| <b>EQUITY</b>                                                    | <u>23 319</u> | <u>20 108</u> |
|                                                                  | <u>23 401</u> | <u>20 114</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Ménard  
Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****TRAINING PLAN FUND - RESIDENTIAL SECTOR**

CHANGES IN EQUITY  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                             | <u>2004</u>          | <u>2003</u>          |
|---------------------------------------------|----------------------|----------------------|
| <b>SOURCE OF FUNDS</b>                      |                      |                      |
| Employer contributions                      | 5 045                | 4 300                |
| Investment income                           | <u>2 159</u>         | <u>1 108</u>         |
|                                             | <u>7 204</u>         | <u>5 408</u>         |
| <b>USE OF FUNDS</b>                         |                      |                      |
| Cost of training activities                 | 1 674                | 1 127                |
| Training incentives                         | 1 379                | 845                  |
| Contribution to the Training Plan committee | 591                  | 553                  |
| Expenses charged by the General Fund        | 302                  | 236                  |
| Losses on derivative financial instruments  | <u>47</u>            | <u></u>              |
|                                             | <u>3 993</u>         | <u>2 761</u>         |
| <b>INCREASE IN EQUITY</b>                   | 3 211                | 2 647                |
| <b>EQUITY, BEGINNING OF YEAR</b>            | <u>20 108</u>        | <u>17 461</u>        |
| <b>EQUITY, END OF YEAR</b>                  | <u><u>23 319</u></u> | <u><u>20 108</u></u> |

The notes are an integral part of these financial statements.

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****SUPPLEMENTAL PENSION PLAN FUND****NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2004

(in thousands of dollars)

|                                                                                | 2004               |                               |                        |                  | 2003             |
|--------------------------------------------------------------------------------|--------------------|-------------------------------|------------------------|------------------|------------------|
|                                                                                | General<br>account | Comple-<br>mentary<br>account | Pensioners'<br>account | Total            | Total            |
| <b>ASSETS</b>                                                                  |                    |                               |                        |                  |                  |
| <b>Investments</b>                                                             |                    |                               |                        |                  |                  |
| Funds entrusted to the Caisse de<br>dépôt et placement du Québec<br>(Note 5.1) | 3 492 134          | 1 469 952                     | 3 443 348              | 8 405 434        | 7 467 011        |
| Investments and accrued interest<br>(Note 5.2b)                                | 46 371             | 17 676                        | 57 549                 | 121 596          | 123 833          |
|                                                                                | <u>3 538 505</u>   | <u>1 487 628</u>              | <u>3 500 897</u>       | <u>8 527 030</u> | <u>7 590 844</u> |
| <b>Accounts receivable</b>                                                     |                    |                               |                        |                  |                  |
| Employee contributions receivable                                              | 8 998              | 9 602                         |                        | 18 600           | 16 281           |
| Employer contributions receivable                                              | 29 248             |                               |                        | 29 248           | 17 869           |
| General Fund transfer receivable                                               |                    |                               | 545 793                |                  |                  |
| Complementary account transfer<br>receivable                                   |                    |                               | 2 796                  |                  |                  |
|                                                                                | <u>38 246</u>      | <u>9 602</u>                  | <u>548 589</u>         | <u>47 848</u>    | <u>34 150</u>    |
|                                                                                | <u>3 576 751</u>   | <u>1 497 230</u>              | <u>4 049 486</u>       | <u>8 574 878</u> | <u>7 624 994</u> |
| <b>LIABILITIES</b>                                                             |                    |                               |                        |                  |                  |
| Outstanding cheques less<br>cash on hand                                       | 308                |                               | (84)                   | 224              | 237              |
| Accounts payable                                                               | 370                | 99                            |                        | 469              | 660              |
| Contributions repayable after<br>retirement                                    |                    | 39 493                        |                        | 39 493           | 34 470           |
| Pensions and lump-sum benefits<br>payable                                      | 5 480              | 2 106                         | 4 398                  | 11 984           | 9 170            |
| Transfers to the pensioners'<br>accounts                                       | 545 793            | 2 796                         |                        |                  |                  |
|                                                                                | <u>551 951</u>     | <u>44 494</u>                 | <u>4 314</u>           | <u>52 170</u>    | <u>44 537</u>    |
| <b>NET ASSETS AVAILABLE<br/>FOR BENEFITS (Note 12)</b>                         | <u>3 024 800</u>   | <u>1 452 736</u>              | <u>4 045 172</u>       | <u>8 522 708</u> | <u>7 580 457</u> |

**SUBSEQUENT EVENT (Note 19)**

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Ménard  
Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****SUPPLEMENTAL PENSION PLAN FUND**

**CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                                 | 2004               |                               |                        |                  | 2003             |
|---------------------------------------------------------------------------------|--------------------|-------------------------------|------------------------|------------------|------------------|
|                                                                                 | General<br>account | Comple-<br>mentary<br>account | Pensioners'<br>account | Total            | Total            |
| <b>INCREASE IN ASSETS</b>                                                       |                    |                               |                        |                  |                  |
| Employee contributions (Note 12.c)                                              | 95 348             | 123 700                       |                        | 219 048          | 195 576          |
| Employer contributions (Note 12.c)                                              | 332 261            |                               |                        | 332 261          | 232 764          |
| Contributions after retirement                                                  |                    | 28 788                        |                        | 28 788           | 26 701           |
| Earnings of funds entrusted to the<br>Caisse de dépôt et placement du<br>Québec | 122 699            | 51 500                        | 127 919                | 302 118          | 278 541          |
| Other interest income                                                           | 944                | 647                           | 720                    | 2 311            | 2 308            |
| Transfer from the general account                                               |                    |                               | 751 532                |                  |                  |
| Transfer from the complementary<br>account                                      |                    |                               | 44 736                 |                  |                  |
| Change in the fair value of<br>investments                                      | 241 713            | 99 654                        | 248 949                | 590 316          | 670 255          |
|                                                                                 | <u>792 965</u>     | <u>304 289</u>                | <u>1 173 856</u>       | <u>1 474 842</u> | <u>1 406 145</u> |
| <b>DECREASE IN ASSETS</b>                                                       |                    |                               |                        |                  |                  |
| Lump-sum benefits and<br>contribution refunds                                   | 24 483             | 8 615                         | 444 137                | 477 235          | 469 560          |
| Repayment of hours after<br>retirement                                          |                    | 39 335                        |                        | 39 335           | 34 369           |
| Charge of administrative expenses<br>by the General Fund                        | 15 547             | 192                           |                        | 15 739           | 14 190           |
| Transfers to the pensioners'<br>accounts (Note 19)                              | 751 532            | 44 736                        |                        |                  |                  |
| Administrative expenses                                                         | 282                |                               |                        | 282              | 712              |
|                                                                                 | <u>791 844</u>     | <u>92 878</u>                 | <u>444 137</u>         | <u>532 591</u>   | <u>518 831</u>   |
| <b>NET INCREASE FOR THE<br/>YEAR</b>                                            | 1 121              | 211 411                       | 729 719                | 942 251          | 887 314          |
| <b>NET ASSETS AVAILABLE<br/>FOR BENEFITS<br/>– BEGINNING OF YEAR</b>            | <u>3 023 679</u>   | <u>1 241 325</u>              | <u>3 315 453</u>       | <u>7 580 457</u> | <u>6 693 143</u> |
| <b>NET ASSETS AVAILABLE<br/>FOR BENEFITS– END OF<br/>YEAR</b>                   | <u>3 024 800</u>   | <u>1 452 736</u>              | <u>4 045 172</u>       | <u>8 522 708</u> | <u>7 580 457</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, 2004  
 (in thousands of dollars)

|                                                                     | 2004                             |                                         |                | 2003           |
|---------------------------------------------------------------------|----------------------------------|-----------------------------------------|----------------|----------------|
|                                                                     | Basic<br>insurance<br>plans fund | Supplemental<br>insurance<br>plans fund | Total          | Total          |
| <b>ASSETS</b>                                                       |                                  |                                         |                |                |
| Investments and accrued revenue (Note 5.2a)                         | 308 105                          | 34 289                                  | 342 394        | 262 353        |
| Employer contributions                                              | 18 759                           | 1 546                                   | 20 305         | 13 688         |
|                                                                     | <u>326 864</u>                   | <u>35 835</u>                           | <u>362 699</u> | <u>276 041</u> |
| <b>LIABILITIES</b>                                                  |                                  |                                         |                |                |
| Outstanding cheques less cash on hand                               | 2 274                            |                                         | 2 274          | 1 673          |
| Claims payable                                                      | 441                              |                                         | 441            | 386            |
| Accounts payable                                                    | 5 767                            | 23                                      | 5 790          | 4 268          |
| Provision for eventual profits                                      | 62 208                           | 3 266                                   | 65 474         | 40 376         |
| Unused voluntary insurance contributions                            | 7 732                            |                                         | 7 732          | 6 100          |
| Unused optional insurance contributions                             | 188 134                          | 9 643                                   | 197 777        | 148 010        |
| Actuarial liability (Note 13)                                       | 64 682                           |                                         | 64 682         | 65 223         |
| Liabilities related to derivative financial<br>instruments (Note 6) | 478                              | 57                                      | 535            |                |
|                                                                     | <u>331 716</u>                   | <u>12 989</u>                           | <u>344 705</u> | <u>266 036</u> |
| <b>EQUITY</b> (Notes 14 and 15)                                     | <u>(4 852)</u>                   | <u>22 846</u>                           | <u>17 994</u>  | <u>10 005</u>  |
|                                                                     | <u>326 864</u>                   | <u>35 835</u>                           | <u>362 699</u> | <u>276 041</u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 André Ménard  
 Pierre Labelle

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****INSURANCE PLANS FUND****CHANGES IN EQUITY**

for the year ended December 31, 2004  
(in thousands of dollars)

|                                                     | 2004                             |                                         |                | 2003           |
|-----------------------------------------------------|----------------------------------|-----------------------------------------|----------------|----------------|
|                                                     | Basic<br>insurance<br>plans fund | Supplemental<br>insurance<br>plans fund | Total          | Total          |
| <b>SOURCE OF FUNDS</b>                              |                                  |                                         |                |                |
| Employer contributions                              | 159 048                          | 10 402                                  | 169 450        | 144 391        |
| Optional employee contributions                     | 12 403                           |                                         | 12 403         | 5 839          |
| Decrease in actuarial liabilities                   | 541                              |                                         | 541            |                |
| Premiums received from supplemental insurance plans | 8 679                            |                                         |                |                |
| Investment income                                   | 24 723                           | 3 421                                   | 28 144         | 13 623         |
|                                                     | <u>205 394</u>                   | <u>13 823</u>                           | <u>210 538</u> | <u>163 853</u> |
| <b>USE OF FUNDS</b>                                 |                                  |                                         |                |                |
| Insurance premiums paid to basic plans              |                                  | 8 679                                   |                |                |
| Expenses charged by the General Fund                |                                  | 147                                     | 147            | 156            |
| Claims                                              | 169 360                          |                                         | 169 360        | 155 790        |
| Tax on capital                                      | 4 314                            | 226                                     | 4 540          | 3 441          |
| Management fees for claims and premiums             | 2 869                            |                                         | 2 869          | 2 667          |
| Increase in provisions pour eventual benefits       | 24 643                           | 455                                     | 25 098         | 6 025          |
| Increase in actuarial liabilities                   |                                  |                                         |                | 1 724          |
| Losses on derivative financial instruments          | 478                              | 57                                      | 535            |                |
|                                                     | <u>201 664</u>                   | <u>9 564</u>                            | <u>202 549</u> | <u>169 803</u> |
| <b>INCREASE (DECREASE) IN EQUITY</b>                | 3 730                            | 4 259                                   | 7 989          | (5 950)        |
| <b>EQUITY, BEGINNING OF YEAR</b>                    | <u>(8 582)</u>                   | <u>18 587</u>                           | <u>10 005</u>  | <u>15 955</u>  |
| <b>EQUITY, END OF YEAR</b>                          | <u>(4 852)</u>                   | <u>22 846</u>                           | <u>17 994</u>  | <u>10 005</u>  |

The notes are an integral part of these financial statements.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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 was established by the Act respecting labour relations, vocational training and manpower management in the construction industry (R.S.Q., c. R-20). It is responsible for applying collective agreements and fringe-benefit plans and managing vocational training and manpower in the construction industry.

To this end, the Commission administers nine trust funds, the Supplemental Pension Plan Fund and the Insurance Plans Fund. The General Fund was established to report on the Commission'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 Commission by the Act.

Under federal and provincial income tax legislation, the Commission is not subject to income tax.

#### 2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION

##### 2.1 Purpose of the trust funds

##### a) **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.

##### b) **Back Pay Fund**

This fund reports on salary claims made by the Commission on behalf of construction industry employees under section 81 of the Act respecting labour relations, vocational training and manpower management in the construction industry.

##### c) **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.

##### d) **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.

##### e) **Residential Sector Contributions Fund**

This fund has been set up to report on employer contributions designed to allow employers and unions to bring on-line, harmoniously implement and disseminate applicable work conditions, to gauge their relevance and effectiveness and to undertake any other approach and analysis to promote closer, more concerted relations between the parties in accordance with the collective agreement governing the residential sector of the construction industry.

##### f) **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 on for jury duty, in accordance with the collective agreements for employees of the construction industry.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS  
ADMINISTERED BY THE COMMISSION (cont'd)**
**2.1 Purpose of the trust funds (cont'd)**
**g) 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 grouped for the purpose of financial statement presentation.

**h) Training Plan Fund – Institutional-Commercial, Industrial, Civil Engineering and Public Works Sector**

This fund reports on employer contributions used to finance the training plan fund for the institutional-commercial, industrial, civil engineering and public works sector, in accordance with the collective agreements for employees of the construction industry.

**i) 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.

**2.2 Description of the supplemental pension plan**

The following description of the supplemental pension plan for employees of the Québec construction industry 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.

**a) General information**

The supplemental pension plan is a benefit interenterprise pension plan established by the fringe benefits committee for the construction industry to replace previous plans, effective January 1, 1976. Under the plan, 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 is comprised of 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 those that participants paid under the general formula applicable to all participants. It has a defined-benefits structure and provides 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 and participants do not accumulate new pension credits in it. Employer 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.

Until December 25, 2004, the complementary account received contributions paid by participants according to specific formulas for each trade or occupation. 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. 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.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

## 2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS

### ADMINISTERED BY THE COMMISSION (cont'd)

#### 2.2 Description of the supplemental pension plan (cont'd)

##### a) General information (cont'd)

These 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.

##### b) 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 Commission is responsible for enforcing. In keeping with section 118 of this Regulation, no later than three years after the last evaluation, the Commission has the supplemental pension plan evaluated for Québec construction industry employees by an independent actuary. The evaluation is effective as of December 31 each year. The actuarial opinion is good 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 the basic pension accumulated and pensions being paid on the evaluation's effective date. This evaluation is based on assumptions determined by outside actuaries by the Commission (see Note 12 a, b).

##### c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at the age of 65, or at the age of 60 if the sum of their age and hours worked divided by 1400 is equal to or higher than 70, or at the age of 55 if the sum of their age and hours worked divided by 1400 is equal to or higher than 80 and the sum of their age and years of service is equal to or higher than 80.

In the case of contributors who are 55 years of age and the sum of their age and hours worked divided by 1 400 is equal to or higher 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 hours worked divided by 1 400 is equal to or greater than 60.

The pension is equal to the total of the pension payable under the general account and the pension payable under the complementary account.

The pension payable under the general account, for service prior to December 26, 2004, is equal to the basic pension resulting from the contributor's adjusted hours worked according to the basic pension rates stipulated in Schedule II of the Regulation.

The pension payable under the complementary account is equal to the basic pension determined by the accumulated retirement value of contributions, including interest, upon the contributor's retirement.

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 Commission following an actuarial valuation of the supplemental pension plan.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 December 31, 2004  
 (in thousands of dollars)

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## 2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS ADMINISTERED BY THE COMMISSION (cont'd)

### 2.2 Description of the supplemental pension plan (cont'd)

#### d) 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 constituted according to the factors of the actuarial equivalents applicable. The total disability pension remains payable even if the disability ceases.

#### e) 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.

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.

#### f) 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..

#### g) Contributions after retirement

Until December 25, 2004, contributions received for a participant receiving a retirement pension or who is past the normal retirement age are repaid to him the following year. As of December 26, 2004, employer contributions for past service paid into the general account are no longer repaid.

#### h) 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 supplemental pension plan for Québec construction industry employees administered by the Commission is governed by this statute. The Commission has entered into talks with the Régie des rentes du Québec regarding the application of this statute to this plan, since the implementation of several of its provisions would cause

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

## 2. PURPOSE AND DESCRIPTION OF THE TRUST FUNDS AND PLANS

### ADMINISTERED BY THE COMMISSION (cont'd)

#### 2.2 Description of the supplemental pension plan (cont'd)

##### h) Supplemental Pension Plans Act (cont'd)

excessive problems, given the specific characteristics of the pension plan. These discussions led to the publication, on May 12, 2004, of the O.C. 415-2004 which removes the supplemental pension plan for construction industry employees from certain provisions of the said statute or to postpone its implementation. However, certain elements regarding plan financing and solvability continue to be discussed.

The actuarial evaluation prepared for the Supplemental Pension Plan for Québec construction industry employees at December 31, 2004 reflects the amendments required in 2004 by O.C. 415-2004.

#### 2.3 Purpose of the insurance plans

A group insurance fund was established to collect premiums and provide for the payment of benefits and compensation under the insurance plans, as well as premiums required to uphold all insurance contracts underwritten by the Commission in relation to complementary social benefits plans.

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.

As at December 31, 2004, the following trades and occupations participated in the supplemental group insurance plans: electricians, roofers, tinsmiths, pipefitters, linemen, fire protection mechanics, refrigeration mechanics, worksite mechanics and trowel trades (bricklayers, cement finishers, plasterers and tile setters).

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 such a supplemental plan. This premium is established at the beginning of the year following the coverage period.

## 3. ACCOUNTING POLICIES

The financial statements of the Commission were prepared by management in accordance with the accounting policies disclosed below. These statements include amounts based on best estimates and judgements. The cash flow statements of the trust funds and insurance plans have not been presented since they would not provide additional information that is useful for understanding the fiscal year's cash flows.

### 3.1 Consolidation perimeter

The financial statements of the trust funds, the supplemental pension plan and insurance plans are not consolidated to the General Fund's financial statements since, under legislation, regulations and collective agreements, the funds and plans constitute separate legal or accounting trusts.

### 3.2 Fair value

The fair value of financial instruments other than investment is equivalent to their book value, given that they mature in the near future.

### 3.3 General Fund, Trust Funds and Insurance Plans

#### a) Investments

Investments are recorded at cost, except for bonds, which are recorded at amortized cost. The fair value of short-term investments is equivalent to their cost.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**3. ACCOUNTING POLICIES (cont'd)****3.3 General Fund, Trust Funds and Insurance Plans (cont'd)****b) Currency conversion**

The cost of investments in market issues is converted at the exchange rate in effect the day they were acquired.

The fair value of the investments is converted to Canadian dollars at the exchange rate in effect at the end of the fiscal year.

Investment income is converted at the exchange rate in effect on the transaction date.

**c) Derivative financial instruments**

The Commission holds derivative financial instruments for exchange risk management purposes on US and foreign shares. These financial instruments are recorded at fair value, and the resulting gains or losses, are presented in under results. Derivative financial instruments that have not expired are presented under the item "Liabilities related to derivative financial instruments".

**d) Fixed assets**

Fixed assets are recorded at cost and depreciated over their expected service life on a straight-line basis at the following annual rates:

|                                |         |
|--------------------------------|---------|
| Buildings                      | 2 1/2%  |
| Building fit-up                | 20%     |
| Office furniture and equipment | 10%     |
| Data processing equipment      | 20%     |
| Computer software              | 33 1/3% |
| Leasehold improvements         | 25%     |

**e) Deferred income**

The inducements granted the Commission by lessors, for the rental of administrative offices, are posted to deferred income and amortized according to the straight-line method over the duration of the leases, i.e. 5 years. The amortization is recorded as a reduction in the rental cost.

**f) Leasing contracts**

When, at the end of a lease, practically all of the advantages and risks inherent in ownership of a good are transferred to the Commission, the good and obligation resulting from the capital-lease contract are posted at the actualized value of instalments payable, as if it were a case of an asset acquisition and a borrowing. Goods thus targeted by capital-lease contracts are amortized using the same method as other fixed assets.

**g) Cash and cash equivalents**

The Commission's policy consists in presenting under cash and cash equivalents bank balances and bank overdrafts and short-term investments that can easily be converted and that mature within three months.

**h) Future fringe benefits**

The Commission offers its employees defined-benefit pension plans and complementary pension benefits.

For defined-benefit plans, the Commission has adopted the following accounting policies:



## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

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### 3. ACCOUNTING POLICIES (cont'd)

#### 3.3 General Fund, Trust Funds and Insurance Plans (cont'd)

##### h) **Future fringe benefits** (cont'd)

The cost of pension benefits and complementary pension benefits earned by employees is established using actuarial calculations according to the projected benefit method pro rated on year of services and charged to results as the services are rendered by the employees. The calculations reflect management's assumptions as to the most probable projected yield of pension plan investments, wage progression, employees' retirement age, contributor mortality rates and projected health care costs.

For the purposes of determining the yield projected for the pension plan assets, these assets are evaluated at their fair value.

The surplus of the net actuarial gain or the net actuarial loss over 10% of the obligation as accrued benefits, or over 10% of the fair value of the plan's assets, if the latter amount is higher, is amortized over the remaining duration of the average activity of active employees.

##### i) **Transfers and charges**

The Commission sets General Fund charges annually at the rate it deems required to cover the administrative expenses of the training, supplemental pension plan and insurance plans funds.

The administrative costs for certain trust funds are not charged but assumed by the General Fund.

For its administration, the Commission transfers interest from the Holiday and Vacation Pay Fund and unidentified compensation of the Holiday and Vacation Pay Fund whose beneficiaries could not, as at January 1 of a given year, be identified over the past three years, and the amounts held in trust for wage-related claims in favour of employees whose identity could not, as at December 31 of a given year, be identified over the past three years.

##### j) **Payments to employees from the Special Compensation Fund**

Compensation is entered upon proof of employer insolvency.

##### k) **Reusable training materials**

The costs incurred by the Commission for reusable training materials are recorded to expenditures using the straight-line method in keeping with the duration of the agreement between the Commission and the school board. The duration of the agreement is 3, 5 or 10 years.

#### 3.4 Supplemental Pension Plan Fund

##### a) **Presentation**

The financial statements are based on the policy of continued operations and present the plan's overall financial position as a separate entity independent of its participants and employers paying into it. They were prepared to help participants and other interested parties learn about the plan's activities during the fiscal year. However, they do not report on the plan's capitalization needs or benefit security for individual participants.

##### b) **Investments**

Investments are recorded at fair value. The fair value of participating units in individual funds of the Caisse de dépôt et placement du Québec is determined by the latter.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**4. INVESTMENT INCOME - GENERAL FUND**

The Commission's administrative regulations authorize it to use the interest earned on investments of the Back Pay, Employer Contributions, Union Assessment and Special Compensation funds for its administration. Income from these fund investments allocated to the General Fund and those from investments of the General Fund break down as follows:

|                             | 2004       | 2003       |
|-----------------------------|------------|------------|
| Employer Contributions Fund | 24         | 30         |
| Union Assessment Fund       | 93         | 108        |
| Special Compensation Fund   | 111        | 101        |
|                             | <u>228</u> | <u>239</u> |
| General Fund                | 646        | 572        |
|                             | <u>874</u> | <u>811</u> |

**5. INVESTMENTS****5.1 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 break down as follows:

|                                                             | 2004             | 2003             |
|-------------------------------------------------------------|------------------|------------------|
| General account                                             |                  |                  |
| Advances from the Caisse de dépôt et placement du Québec ** | 1                | (3 000)          |
| Participation deposits ***                                  | 3 474 540        | 2 983 860        |
| Revenue receivable from the individual fund                 | 17 593           | 2 864            |
|                                                             | <u>3 492 134</u> | <u>2 983 724</u> |
| Complementary account                                       |                  |                  |
| Advances from the Caisse de dépôt et placement du Québec ** | 10 001           | 1                |
| Participation deposits ***                                  | 1 452 174        | 1 241 551        |
| Revenue receivable from the individual fund                 | 7 777            | 1 248            |
|                                                             | <u>1 469 952</u> | <u>1 242 800</u> |
| Pensioners' account                                         |                  |                  |
| Demand deposit *                                            | 1                | (27 001)         |
| Participation deposits ***                                  | 3 424 582        | 3 260 709        |
| Revenue receivable from the individual funds                | 18 765           | 6 779            |
|                                                             | <u>3 443 348</u> | <u>3 240 487</u> |
|                                                             | <u>8 405 434</u> | <u>7 467 011</u> |

\* In the General Fund of the Caisse.

\*\* Advances at the daily call rate plus 5 basis points, repayable on demand.

\*\*\* The participating units in individual funds of the Caisse, held for each supplemental insurance plan, are expressed in units. These units are refundable with advance notice according to the Caisse's terms and conditions of settlement, at the fair value of the net equity of the individual fund at the end of each quarter. At the end of each quarter for an individual fund, the Caisse allocates to the Commission the net investment income, gains and losses resulting from the sale of investments.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

## 5. INVESTMENTS (cont'd)

## 5.2 Investments and accrued revenue

## a) General Fund, trust funds and insurance plans - at cost

|                               | 2004           |                | 2003           |                |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | Cost           | Fair value     | Cost           | Fair value     |
| Cash on hand                  | 45 715         | 45 715         | 32 243         | 32 243         |
| Term deposits <sup>a</sup>    | 197 275        | 197 275        | 138 116        | 138 116        |
| Bonds <sup>b</sup>            | 288 631        | 300 389        | 248 919        | 257 544        |
| Shares <sup>c</sup>           | 219 786        | 235 092        | 186 862        | 208 835        |
| Broker's account <sup>d</sup> |                |                | (1 378)        | (1 378)        |
| Accrued interest              | 3 470          | 3 470          | 3 378          | 3 378          |
| Total                         | <u>754 877</u> | <u>781 941</u> | <u>608 140</u> | <u>638 738</u> |

a Maturing no later than June 30, 2005 at interest rates varying from 2.47% to 2.79%.

b The weighted average bond term is 5.99 years and the actual rate of return is 3.83%.

c The cost of US shares is \$67 366 834 compared to a fair value of \$63 819 688. This decline in value is attributable to an overall market movement of US shares. The book value of shares has not been adjusted to reflect this temporary drop in value. The foreign shares is \$57 489 481 compared to a fair value of \$60 138 692.

d Corresponds to the broker's margin for the compensation of appreciation or depreciation on futures contracts.

Investments and accrued revenue break down as follows:

|                                         | 2004           | 2003           |
|-----------------------------------------|----------------|----------------|
| General Fund                            | 62 038         | 29 193         |
| Holiday and Vacation Pay Fund           | 180 239        | 164 044        |
| Back Pay Fund                           | 1 161          | 1 229          |
| Employer Contributions Fund             | 870            | 1 610          |
| Union Assessment Fund                   | 4 322          | 5 711          |
| Residential Sector Contributions Fund   | 63             | 63             |
| Special Compensation Fund               | 5 388          | 4 058          |
| Eligibility Fund                        | 2 844          | 2 452          |
| Training Plan Fund - Work Sectors       | 132 487        | 117 603        |
| Training Plan Fund - Residential Sector | 23 071         | 19 824         |
| Basic insurance plans                   | 308 105        | 233 688        |
| Supplemental insurance plans            | 34 289         | 28 665         |
|                                         | <u>754 877</u> | <u>608 140</u> |

## b) Supplemental pension plan - at fair value

|                            | 2004           |                | 2003           |                |
|----------------------------|----------------|----------------|----------------|----------------|
|                            | Cost           | Fair value     | Cost           | Fair value     |
| Cash on hand               | 21 884         | 21 884         | 20 562         | 20 562         |
| Term deposits <sup>a</sup> | 91 860         | 91 860         | 88 308         | 88 308         |
| Bonds <sup>b</sup>         | 7 624          | 7 623          | 14 696         | 14 683         |
| Accrued interest           | 229            | 229            | 280            | 280            |
|                            | <u>121 597</u> | <u>121 596</u> | <u>123 846</u> | <u>123 833</u> |

a Maturing no later than June 30, 2005 at interest rates varying from 2.47% to 2.79%.

b The weighted average bond term is 5.99 years and the actual rate of return is 3.83%.

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**5. INVESTMENTS (cont'd)****5.2 Investments and accrued revenue (cont'd)****b) Supplemental pension plan - at fair value (cont'd)**

Investments and accrued interest break down as follows:

|                                                   | 2004           | 2003           |
|---------------------------------------------------|----------------|----------------|
| Supplemental pension plan - general account       | 46 371         | 31 431         |
| Supplemental pension plan - complementary account | 17 676         | 29 327         |
| Supplemental pension plan - pensioners' account   | 57 549         | 63 075         |
|                                                   | <u>121 596</u> | <u>123 833</u> |

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

To manage its investments, the Commission uses various derivative financial instruments for adjustment or covering purposes.

The table below presents the notional reference amounts and fair values of the Commission's derivative financial instruments:

|                                          | 2004                            |               | 2003                            |              |
|------------------------------------------|---------------------------------|---------------|---------------------------------|--------------|
|                                          | Notional<br>reference<br>amount | Fair<br>value | Notional<br>reference<br>amount | Fair value   |
| Future contracts on stock market indices |                                 |               |                                 |              |
| Long position                            |                                 |               | 5 098                           | 297          |
| Short position                           |                                 |               | (4 733)                         | (221)        |
| Forward exchange contracts               |                                 |               |                                 |              |
| Short position                           | 254 230                         | (971)         | 100 326                         | 2 174        |
|                                          | <u>254 230</u>                  | <u>(971)</u>  | <u>100 691</u>                  | <u>2 250</u> |

The fair value reflects the estimated amounts that the Commission will receive where favourable contracts are settled or will have to pay to terminate unfavourable contracts on the dates the financial data was presented. The Commission's security brokers' or bankers' rates are available for these future contracts on stock market indices and exchange contracts.

The Commission deals only with reputable financial institutions, so that the credit risk is virtually zero. Exchange risks related to investments denominated in foreign currency are covered by forward exchange contracts.

Short-term exchange contracts are presented as "Liabilities related to derivative financial instruments" and break down as follows:

|                                         | 2004         |
|-----------------------------------------|--------------|
| Holiday and Vacation Pay Fund           | (121)        |
| Training Plan Fund - Work Sectors       | (268)        |
| Training Plan Fund - Residential Sector | (47)         |
| Basic insurance plans                   | (478)        |
| Supplemental insurance plans            | (57)         |
|                                         | <u>(971)</u> |

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**7. FIXED ASSETS**

|                                                          | 2004          |                          |               | 2003          |
|----------------------------------------------------------|---------------|--------------------------|---------------|---------------|
|                                                          | Cost          | Accumulated depreciation | Net           | Net           |
| Land                                                     | 672           |                          | 672           | 672           |
| Buildings                                                | 8 718         | 5 688                    | 3 030         | 3 248         |
| Building fit-up                                          | 3 325         | 2 120                    | 1 205         | 1 093         |
| Furniture and equipment                                  | 7 035         | 4 852                    | 2 183         | 2 131         |
| Data processing equipment                                | 6 454         | 3 882                    | 2 572         | 2 505         |
| Computer software                                        | 4 364         | 3 009                    | 1 355         | 796           |
| Leasehold improvements                                   | 1 388         | 729                      | 659           | 761           |
|                                                          | <u>31 956</u> | <u>20 280</u>            | <u>11 676</u> | <u>11 206</u> |
| Computer equipment leased under a capital-lease contract | 732           | 146                      | 586           |               |
| Computer systems development projects                    | <u>411</u>    |                          | <u>411</u>    |               |
|                                                          | <u>33 099</u> | <u>20 426</u>            | <u>12 673</u> | <u>11 206</u> |

**8. BANK BORROWING**

The Commission has a credit line with financial institutions that is renewable annually on July 1. At December 31, 2004, the maximum amount the Commission could use was \$7 000 000. Amounts used bear interest at the prime rate. Moreover, in the 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.

**9. OBLIGATION RESULTING FROM A CAPITAL-LEASE CONTRACT**

|                                                                              | 2004       | 2003 |
|------------------------------------------------------------------------------|------------|------|
| Obligation resulting from a capital-lease contract at 2.37% maturing in 2006 | <u>483</u> |      |
|                                                                              | 483        |      |
| Instalments maturing within one year                                         | <u>239</u> |      |
|                                                                              | <u>244</u> |      |

Minimum instalments payable on the obligation resulting from a capital-lease contract are as follows:

|                                                                      | 2004       | 2003 |
|----------------------------------------------------------------------|------------|------|
| 2005                                                                 | 250        |      |
| 2006                                                                 | <u>250</u> |      |
| Total minimum amount payable                                         | 500        |      |
| Amount representing interest included in the minimum amounts payable | <u>17</u>  |      |
|                                                                      | <u>483</u> |      |

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 December 31, 2004  
 (in thousands of dollars)

**10. CASH FLOWS**

|                                                                | 2004         | 2003      |
|----------------------------------------------------------------|--------------|-----------|
| Change on non-cash elements of the Working Capital Fund        |              |           |
| Increase in withdrawals receivable                             | (473)        | (187)     |
| Change in accounts receivable                                  | (807)        | 351       |
| Increase in subsidy receivable from the Gouvernement du Québec | 3 350        | 1 400     |
| Decrease in prepaid expenses                                   | (223)        | 33        |
| Change in accounts payable and accruals                        | 1 330        | 2 294     |
| Increase in deferred income                                    | (51)         | 133       |
| Decrease in deferred Gouvernement du Québec subsidy            | (3 393)      | (3 932)   |
|                                                                | <u>(267)</u> | <u>92</u> |

The cash and cash equivalents shown in the cash flow statement for the General Fund include the following amounts recorded in the balance sheet:

|                                   | 2004          | 2003         |
|-----------------------------------|---------------|--------------|
| Cash on hand                      | 682           | (477)        |
| Bank borrowing                    | (20 250)      |              |
| Investments and accrued revenue * | 35 659        | 9 374        |
|                                   | <u>16 091</u> | <u>8 897</u> |

\* These investments and accrued revenue are those maturing within three months.

The interest and bank charges paid by the Commission totalled \$200 271 (2003: \$172 241).

**11. EQUITY OF THE ELIGIBILITY FUNDS**

The eligibility funds have been grouped into a single fund for the purpose of financial statement presentation. As at December 31, the equity of each fund is as follows:

|                                               | 2004         | 2003         |
|-----------------------------------------------|--------------|--------------|
| Eligibility Fund – Mechanics                  | 52           | 65           |
| Eligibility Fund – Locksmiths                 | 82           | 75           |
| Eligibility Fund – Linemen                    | 29           | 30           |
| Eligibility Fund – Reinforcing steel erectors | 119          | 95           |
| Eligibility Fund – Electricians               | 885          | 761          |
| Eligibility Fund – Tinsmiths                  | 258          | 221          |
| Eligibility Fund – Boilermakers               | 195          | 168          |
| Eligibility Fund – Pipefitters                | 1 283        | 1 108        |
|                                               | <u>2 903</u> | <u>2 523</u> |

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**12. OBLIGATIONS RELATED TO BENEFITS****a) 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, 2004 transmitted by the Commission de la construction du Québec, the plan's administrator. This value was adjusted by projection to December 31, 2004. The actuarial value was determined using the accumulated benefit method and the most probable assumptions, including appropriate margins for unfavourable variances, according to actuaries responsible for the evaluation. According to this method, the commitment correspond to the actuarial value, on the date of evaluation, of the pension claims and other benefits payable based on the accumulated adjusted hours on this date. The complementary account is not concerned since this part of the plan involves defined contributions and liabilities of this account equal the assets.

According to this evaluation, the actuarial value of benefits at December 31, the main components of the change in actuarial values over the fiscal year and the value of the reserves determined in keeping with the Regulation respecting complementary social benefit plans in the construction industry, were as follows:

|                                                                                                                                              | 2004             | 2003             |
|----------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| General account                                                                                                                              | 4 561 283        | 3 572 885        |
| Pensioners' account                                                                                                                          | <u>3 827 762</u> | <u>3 708 563</u> |
| Actuarial value of accumulated benefits<br>at fiscal year-end                                                                                | 8 389 045        | 7 281 448        |
| Reserve for economic fluctuations in the general account                                                                                     | 292 909          |                  |
| Special reserve taken from general account and equal to<br>the difference between the value of pensioners' account<br>obligations and assets |                  | <u>345 225</u>   |
| Actuarial value of accrued benefits and reserves<br>at fiscal year-end                                                                       | <u>8 681 954</u> | <u>7 626 673</u> |
|                                                                                                                                              | <u>2004</u>      | <u>2003</u>      |
| Actuarial value of accrued benefits at the beginning<br>of the fiscal year                                                                   | 7 281 448        | 6 901 091        |
| Changes made to the Plan                                                                                                                     | 656 145          |                  |
| Changes in actuarial assumptions                                                                                                             | 147 283          | 145 901          |
| Interest cumulated on benefits                                                                                                               | 489 740          | 477 065          |
| Accrued benefits                                                                                                                             | 167 961          | 159 505          |
| Benefits paid                                                                                                                                | (481 812)        | (495 834)        |
| Transfer from complementary account                                                                                                          | 38 149           | 22 850           |
| Loss (gain) of experience                                                                                                                    | <u>90 131</u>    | <u>70 870</u>    |
| Actuarial value of accrued benefits at fiscal year-end                                                                                       | <u>8 389 045</u> | <u>7 281 448</u> |

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**12. OBLIGATIONS RELATED TO BENEFITS (cont'd)****a) Obligations of the Supplemental Pension Plan (cont'd)**

The assumptions used to determine the actuarial value of accrued benefits reflect long-term markets situation forecasts. The most significant long-term actuarial assumptions used for the evaluation are as follows:

|                           | 2004  | 2003  |
|---------------------------|-------|-------|
| Assets' medium-term yield | 6.25% | 6.75% |
| Assets' long-term yield   | 6.50  | 6.25  |

**b) 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 according to which the actuarial value of assets is determined on the basis of 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.

Actuarial present value of assets:

|                                                                   | 2004*     | 2003*     |
|-------------------------------------------------------------------|-----------|-----------|
| Net assets available for benefits                                 |           |           |
| General account                                                   | 3 375 580 | 2 822 073 |
| Pensioners' account                                               | 3 387 231 | 3 248 147 |
|                                                                   | 6 762 811 | 6 070 220 |
| Fair value changes not reflected in actuarial value of net assets | (175 284) | 233 175   |
| Actuarial value of net assets available for benefits              | 6 587 527 | 6 303 395 |

\* The values shown represent extrapolations.

**c) Capitalization policy**

From the onset of the plan until December 25, 2004, the participant's contribution to the general account rose from \$0.05 to \$0.80 per hour worked. Since December 26, 2004, participants no longer contribute to this account and the employee contribution of \$0.80 determined by clauses common to the four sector-based collective agreements is now paid into the complementary account along with those provided for by specific clauses applicable to various trades and occupations. The La participant contribution to the complementary account varied from \$0.15 to \$3.80 per hours worked since the plan's inception.

Until December 25, 2004, the employer's contribution was limited to the one established for the general account and varied from \$0.04 to \$3.205 per hour worked. In fiscal 2004, the employer contribution for this same account rose to \$2.765 per hour worked for an apprentice and to \$3.205 per hour worked for a journeyman. Since December 26, 2004, employers pay an employer contribution for past service into the general account in the amount of \$2.305 per hour worked for an apprentice and \$2.005 per hour worked for a journeyman and an employer contribution for current service into the complementary account in the amount of \$0.46 per hour worked for an apprentice and \$1.20 per hour worked for a journeyman.

The last actuarial evaluation for capitalization purposes tabled before the Régie des rentes du Québec is that of December 31, 2003. The December 31, 2004 actuarial evaluation shows the existence of an economic fluctuation reserve of \$292 909 000 in the general account and a uncanceled obligation at December 31, 2004 of \$1 801 518 000. This obligation is being capitalized, over a 15-year period, through an employer contribution for past service established at \$2.305 per hour worked for an apprentice and \$2.005 per hour worked for a journeyman.



## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

#### 13. ACTUARIAL LIABILITIES OF INSURANCE PLANS

In accordance with a self-management system for the insurance plans of employees of the Québec construction industry, the plans assume a limited share of risks, certain insurance guarantees are obtained and the task of settling certain disputes is delegated.

In accordance with sections 100 to 103 of the Regulation respecting complementary social benefits plans in the construction industry, a consulting actuary carried out an actuarial valuation of the plans as at December 31, 2004 to confirm the solvability of the insurance plans.

Commitments under the plans were extrapolated to December 31, 2004. The Commission accounted for the required sums as follows:

|                                 | 2004          | 2003          |
|---------------------------------|---------------|---------------|
| Reserve for committed benefits  | 29 052        | 27 548        |
| Reserve for disability pensions | 35 630        | 37 675        |
|                                 | <u>64 682</u> | <u>65 223</u> |

#### 14. HEALTH MANAGEMENT PROGRAM

Since 1998, contributions of \$0.03/hour are paid into the basic plan fund in order to gradually set up a health management program. This program provides unconventional insurance coverage targeting prevention, customized measures and rehabilitation in order to rein in the increase in the cost of traditional coverage provided by the plans. The Commission committed to using these contributions to pay for the different current and future components implemented under the program. The cumulative amount of these contributions that were unused as at December 31, 2004 was \$18 673 000 (\$15 354 000 in 2003). This amount is used to reduce the deficit of basic insurance plans.

#### 15. EQUITY OF THE SUPPLEMENTAL INSURANCE PLANS

The insurance plans have been grouped into a single plan for the purpose of financial statement presentation. As at December 31, the equity of each plan is as follows:

|                           | 2004          | 2003          |
|---------------------------|---------------|---------------|
| Electricians              | 10 248        | 9 512         |
| Roofers                   | 923           | 817           |
| Tinsmiths                 | 1 309         | 975           |
| Pipefitters               | 6 031         | 4 505         |
| Linemen                   | 1 529         | 970           |
| Fire protection mechanics | 493           | 347           |
| Refrigeration mechanics   | 449           | 372           |
| Worksite mechanics        | 405           | 253           |
| Trowel trades             | 1 459         | 836           |
|                           | <u>22 846</u> | <u>18 587</u> |

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**16. COMMITMENTS**

The Commission is committed to long-term leases for office space expiring on various dates up to September 30, 2009. These leases include a five-year renewal option.

Lease payments for the year ended December 31, 2004, amount to \$1 413 150 (2003: \$1 270 829). The minimum lease payments for the next five years are as follows:

|      |              |
|------|--------------|
| 2005 | 1 432        |
| 2006 | 707          |
| 2007 | 534          |
| 2008 | 401          |
| 2009 | 56           |
|      | <u>3 130</u> |

Further, the Commission de la construction du Québec's supplemental pension plan for employees not governed by collective agreements is claiming contributions of \$359 374 from the Commission for 1990-1992. Under an agreement between the plan and the Commission, the latter commits to pay this amount by covering a portion of the costs of the retirement preparation program that would normally be paid by the plan. At December 31, 2004, the balance to be paid was \$319 372.

**17. CONTINGENCIES**

Legal proceedings against the Commission, in the amount of \$2 202 309, were under way on the date the financial statements were prepared. In some of these proceeding, the Commission's insurers took up its defence. On the basis of the information available, management is of the opinion that it is unlikely that its liability will be considered significant with regard to these proceedings in comparison with the Commission's financial position. Any payment by the Commission, where applicable, will be recorded to the charges for the fiscal year.

**18. FRINGE BENEFITS OF COMMISSION DE LA CONSTRUCTION DU QUÉBEC EMPLOYEES**

The supplemental pension plan for unionized employees of the Commission de la construction du Québec and the supplemental pension plan for non-unionized Commission employees are defined benefit plans and include guaranteed payments upon retirement and death. All permanent employees must contribute to the plans.

The Commission also offers its retirees defined-benefit health insurance and life insurance plans and retirement bonuses.

According to the actuarial calculations performed for fiscal 2004, the Commission's net charge is as follows:

|            | Pension plans |       | Other plans |       |
|------------|---------------|-------|-------------|-------|
|            | 2004          | 2003  | 2004        | 2003  |
| Net charge | 3 117         | 2 947 | 5 444       | 5 151 |

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**18. FRINGE BENEFITS OF COMMISSION DE LA CONSTRUCTION DU QUÉBEC EMPLOYEES (cont'd)**

The information concerning the defined-benefit plans, taken collectively, and the liability for the benefits accrued under the plans is as follows at December 31:

|                                                                                    | Pension plans |          | Other plans |          |
|------------------------------------------------------------------------------------|---------------|----------|-------------|----------|
|                                                                                    | 2004          | 2003     | 2004        | 2003     |
| Fair value of plan assets                                                          | 244 241       | 225 467  |             |          |
| Obligations for benefits accrued                                                   | 273 338       | 234 317  | 52 825      | 43 121   |
| Capitalization situation – surplus (deficit)                                       | (29 097)      | (8 850)  | (52 825)    | (43 121) |
| Unamortized net actuarial loss                                                     | (40 290)      | (61 400) | (13 293)    | (7 655)  |
| Asset (liability) for benefits accrued                                             | 11 193        | 52 550   | (39 532)    | (35 466) |
| Provision for decline in value                                                     | (11 193)      | (52 550) |             |          |
| Asset (liability) for benefits accrued minus<br>the provision for decline in value |               |          | (39 532)    | (35 466) |

For both retirement plans, the effective date of the recent actuarial evaluation is December 31, 2002. Moreover, both plans foresee the effective date of the next actuarial evaluation being December 31, 2005.

The significant actuarial assumptions used by the Commission to evaluate its obligations under benefits accrued are the following (weighted average of assumption as at December 31).

|                                                    | Pension plans |       | Other plans |       |
|----------------------------------------------------|---------------|-------|-------------|-------|
|                                                    | 2004          | 2003  | 2004        | 2003  |
| Capitalization rate                                | 5.75%         | 6.50% | 6.50%       | 6.50% |
| Rate of return projected on plan assets, long-term | 7.25%         | 7.25% |             |       |
| Remuneration growth rate                           | 4.00%         | 4.00% |             |       |
|                                                    | to            | to    |             |       |
|                                                    | 5.00%         | 5.00% |             |       |

For evaluation purposes, the hypothetical annual growth rate of the cost of health care covered by participant was set at 8% for 2004. According to the assumption chosen, this rate should diminish by 1% annually to reach 5% in 2007 and then remain there.

The other information concerning the Commission's predefined benefit plans is as follows:

|                        | Pension plans |       | Other plans |       |
|------------------------|---------------|-------|-------------|-------|
|                        | 2004          | 2003  | 2004        | 2003  |
| Employer contributions | 3 117         | 2 947 |             |       |
| Employee contributions | 2 421         | 2 275 |             |       |
| Benefits paid          | 10 354        | 9 210 | 1 378       | 1 108 |

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004  
(in thousands of dollars)

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**19. SUBSEQUENT EVENT**

In April 2005, the Commission adopted a draft regulation on complementary social benefit plans in the construction industry. This draft regulation will come into effect when it is published in the Gazette officielle du Québec. It specifies that the amount transferred from the general account to the pensioners' account to eliminate the special reserve, established at \$533 337 000 at December 31, 2004, must be based on the real value rather than the projected value of commitments and the pensioners' account assets at December 31, 2004. It is currently impossible to estimate its financial impact on the financial statements of the Supplemental Pension Plan. A new actuarial evaluation of the pensioners' account, at December 31, 2004, is needed to determine the real value to be transferred.

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY OF QUÉBEC****ACTUARIAL VALUATION AS AT DECEMBER 31, 2004  
ACTUARIAL OPINION**

The Supplemental Pension Plan for Québec construction industry employees was evaluated at December 31, 2004, based on the Regulation respecting complementary social benefit plans in the construction industry, in effect at this date, and based on data at January 1, 2004. This actuarial opinion is based on the report entitled “Évaluation actuarielle au 31 décembre 2004” dated December 2, 2004.

We certify that in our opinion,

- a) On December 31, 2004, the Plan posted an economic fluctuations reserve of \$292 909 000 in the general account and a shortfall in the adjusted value of assets over the current value of benefits of \$1 801 518 000.
- b) The pension fund was partly solvable at December 31, 2004. If the Plan were to be dissolved on December 31, 2004, the total value of the assets of 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 adjusted value of assets over the current value of benefits breaks down as follows:

| <b>Year</b>                              | <b>Apprentices<br/>\$/hour</b> | <b>Journey persons<br/>\$/hour</b> |
|------------------------------------------|--------------------------------|------------------------------------|
| From January 1, 2005 to April 30, 2005   | 2.305                          | 2.005                              |
| From May 1, 2005 to April 29, 2006       | 2.305                          | 2.625                              |
| From April 30, 2006 to December 31, 2018 | 2.305                          | 2.305                              |

- d) The current value of amortization contributions at December 31, 2004 is \$2 094 427 000.
- e) The data on which the evaluation is based are sufficient and reliable for evaluation purposes.
- f) Overall, the assumptions are appropriate for evaluation purposes.
- g) The methods used in the evaluation are appropriate for evaluation purposes.
- h) Given that the Plan is an interenterprise 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

Pierre Guérin, FICA, FSA  
Principal Consultant

Montréal, March 10, 2005

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### BASIC INSURANCE PLANS

#### ACTUARIAL CERTIFICATE CONCERNING THE BASIC INSURANCE PLANS FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

The commitments to the basic insurance plans were valued as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2004, the net assets of the basic plans were \$67 467 000 higher than plan commitments. This surplus does not take into account eventual insurance costs of \$67 329 000 for hours worked over the four monthly work periods preceding the evaluation date;
- b) The contribution rates foreseen when the valuation report was tabled in December 2004, i.e. \$1.38/hour at April 27, 2003, \$1.79/hour at May 2, 2004, \$1.82/hour at May 2005 and \$1.85/hour at April 2006 are sufficient to ensure the solvability of the basic plans until December 31, 2007;
- c) These contribution rates are sufficient to support the cost of the basic plans until June 30, 2007. For the second half of 2007, the contribution rate is insufficient, with a shortfall of \$0.020/hour.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

### SUPPLEMENTAL INSURANCE PLAN FOR ELECTRICIANS

#### ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR ELECTRICIANS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

The commitments to the supplemental insurance plan for electricians were valued as December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2004, the net assets of the supplemental insurance plan for electricians were \$11 006 000 higher than the sum of the commitments for the plan;
- b) The contribution rates of \$0.231/hour until April 30, 2005, of \$0.247/hour from May 1, 2005 to April 29, 2006 and of \$0.263/hour at April 30, 2006 are sufficient to maintain the solvability of the supplemental insurance plan for electricians for the three-year period ending December 31, 2007.
- c) These contribution rates are insufficient to cover plan costs over the next six semesters ending on December 31, 2007. During the first semester of 2005, there is a slight shortfall of \$0.035/hour which gradually rises to \$0.059/hour in the last semester of 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### SUPPLEMENTAL INSURANCE PLAN FOR ROOFERS

#### ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR ROOFERS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

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The commitments to the supplemental insurance plan for roofers were valued as December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2004, the net assets of the supplemental insurance plan for roofers were \$941 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.200/hour is sufficient to ensure the solvability of the supplemental insurance plan for roofers for the three-year period ending December 31, 2007.
- c) The contribution rate is insufficient to cover plan costs over the next six semesters. During the first semester of 2005, there is a slight shortfall of \$0.035/hour which gradually rises to \$0.070/hour in the last semester of 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

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### SUPPLEMENTAL INSURANCE PLAN FOR TINSMITHS

#### ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR TINSMITHS WORKING IN THE QUEBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

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The commitments to the supplemental insurance plan for tinsmiths were valued as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion,

- a) At December 31, 2004, the net assets of the supplemental insurance plan for tinsmiths were \$1 573 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.200/hour is sufficient to maintain the solvability of the supplemental insurance plan for tinsmiths for the three-year period ending December 31, 2007.
- c) This contribution rate is sufficient to cover plan costs until December 31, 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****SUPPLEMENTAL INSURANCE PLAN FOR REFRIGERATION MECHANICS****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR REFRIGERATION MECHANICS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

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The commitments of the supplemental insurance plan for refrigeration mechanics were evaluated as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2004, the net assets of the supplemental insurance plan for refrigeration mechanics were \$389 000 higher than the sum of the commitments for the plan.
- b) The contribution rate of \$0.150/hour is sufficient to maintain the solvability of the supplemental insurance plan for refrigeration mechanics for the three-year period ending December 31, 2007.
- c) The contribution rate is insufficient to cover plan costs over the next six semesters ending on December 31, 2007. During the first semester of 2005, there is a slight shortfall of \$0.024/hour which gradually rises to \$0.050/hour in the last semester of 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

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**SUPPLEMENTAL INSURANCE PLAN FOR LINEMEN****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR LINEMEN WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

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The commitments to the supplemental insurance plan for linemen were valued as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2004, the net assets of the supplemental insurance plan for linemen were \$1 815 000 higher than the sum of the commitments for the plan;
- b) The contribution rate of \$0.500/hour is sufficient to maintain the solvability of the supplemental plan for linemen for the three-year period ending December 31, 2007.
- c) This contribution rate is sufficient to cover plan costs until December 31, 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA



## COMMISSION DE LA CONSTRUCTION DU QUÉBEC

### SUPPLEMENTAL INSURANCE PLAN FOR TROWEL TRADES

#### ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR TROWEL TRADES WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

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The commitments of the supplemental insurance plan for trowel trades were evaluated as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2004, the net assets of the supplemental insurance plan for trowel trades were \$1 833 000 higher than the sum of the commitments for the plan.
- b) The contribution rate of \$0.150/hour is sufficient to maintain the solvability of the supplemental insurance plan for trowel trades for the three-year period ending December 31, 2007.
- c) The contribution rate is sufficient to cover plan costs until December 31, 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

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### SUPPLEMENTAL INSURANCE PLAN FOR PIPEFITTERS

#### ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR PIPEFITTERS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT

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The commitments of the supplemental insurance plan for pipefitters were evaluated as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2004, the net assets of the supplemental insurance plan for pipefitters were \$7 332 000 higher than the sum of the commitments for the plan;
- b) The contribution rates of \$0.381/hour until April 30, 2005, of \$0.397/hour from May 1, 2005 to April 29, 2006 and of \$0.413/hour as at April 30, 2006 are sufficient to maintain the solvability of the supplemental insurance plan for pipefitters for the three-year period ending December 31, 2007.
- c) These contribution rates are sufficient to cover plan costs until December 31, 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****SUPPLEMENTAL INSURANCE PLAN FOR FIRE PROTECTION MECHANICS****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR FIRE PROTECTION MECHANICS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

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The commitments to the supplemental insurance plan for fire protection mechanics were valued as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2004, the net assets of the supplemental insurance plan for fire protection mechanics were \$550 000 higher than the sum of the commitments for the plan;
- b) The contribution rates of \$0.231/hour until April 30, 2005, of \$0.247/hour from May 1, 2005 to April 29, 2006 and of \$0.263/hour as at April 30, 2006 are sufficient to maintain the solvability of the supplemental insurance plan for fire protection mechanics for the three-year period ending December 31, 2007.
- c) These contribution rates are sufficient to cover plan costs until December 31, 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

**SUPPLEMENTAL INSURANCE PLAN FOR WORKSITE MECHANICS****ACTUARIAL CERTIFICATE CONCERNING THE SUPPLEMENTAL INSURANCE PLAN FOR WORKSITE MECHANICS WORKING IN THE QUÉBEC CONSTRUCTION INDUSTRY AND WHICH REFLECTS THE CHANGES DESCRIBED IN THE DOCUMENT**

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The commitments to the supplemental insurance plan for worksite mechanics were valued as at December 31, 2004. This valuation is based on the data and costs provided by the Commission.

In our opinion:

- a) At December 31, 2004, the net assets of the supplemental insurance plan for worksite mechanics were \$558 000 higher than the sum of the commitments for the plan;
- b) The contribution rates of \$0.211/hour until April 30, 2005, of \$0.227/hour from May 1, 2005 to April 29, 2006 and of \$0.243/hour as at April 30, 2006 are sufficient to maintain the solvability of the supplemental insurance plan for worksite mechanics for the three-year period ending December 31, 2007.
- c) These contribution rates are sufficient to cover plan costs until December 31, 2007.

This actuarial certificate is based on a valuation that was carried out using assumptions we consider adequate and appropriate, and methods that make use of sound actuarial principles.

Respectfully submitted for your consideration, in March 23, 2005.

Groupe-conseil Aon  
François Boisvenue, FICA, FSA

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the General Fund of the Commission, the trust funds, the supplemental pension plan fund and insurance plans fund were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing the appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The financial data contained in the remainder of the annual activity report concords 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 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 internal auditing department conducts periodic audits to ensure that internal controls are adequate and applied uniformly on an ongoing basis by the Commission.

The Commission 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 carried out its financial reporting duties, and has approved the financial statements. It was assisted in these duties by the auditing committee, which meets with management and the auditor, examines the financial statements and recommends that the Board of Directors approve them.

The actuaries of the firm Groupe-conseil Aon were named actuarial consultants by the Commission. Their role consisted in valuating 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 Commission.

The Auditor General of Québec has audited the financial statements of the General Fund of the Commission, the trust funds, the supplemental pension plan fund and insurance plans fund, in accordance with generally accepted auditing standards. His report states the nature and scope of his audits and his opinion. The Auditor General may, without restriction meet with the audit committee to discuss any matter related to the audit.

André Ménard  
President-Chief Executive Officer

April 29, 2005

**COMMISSION DE LA CONSTRUCTION DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the General Fund of the Commission de la construction du Québec as at December 31, 2004, and the statement of revenue and expenditure and fund balance and the statement of cash flows for the year then ended.

I also audited the state of the net assets available for the service of the supplemental pension plan benefits and the balance sheets or statements of assets and liabilities for the insurance plans and the following trust funds administered by the Commission de la construction du Québec as at December 31, 2004 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:

Holiday and Vacation Pay Fund;  
Back Pay Fund;  
Employer Contributions Fund;  
Union Assessment Fund;  
Residential Sector Contributions Fund;  
Special Compensation Fund;  
Eligibility Fund;  
Training Plan Fund – Work Sections;  
Training Plan Fund – Residential Sector

These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall 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, 2004 and the results of the General Fund'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 trust funds for the year then ended, in accordance with generally accepted accounting principles 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.

The Supplemental Pension Plans Act (R.S.Q., c. R-15.1) provides for pension plan financing and solvability evaluation. As mentioned in notes 2.2 (h) and 12 (c), the Commission does not apply these provisions, which could have a significant impact on the establishment of employee and employer contributions to the Supplemental pension plan of employees in Québec's construction industry. However, it was impossible for me to determine the scope of these deviations.

Renaud Lachance, CA  
Auditor General of Québec

Québec, April 29, 2005

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES  
ET DES ASSOCIATIONS DE PRODUCTEURS**  
(R.S.Q., c. S-32.1)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                          | <u>2005</u>           | <u>2004</u>              |
|------------------------------------------|-----------------------|--------------------------|
| <b>REVENUE</b>                           |                       |                          |
| Gouvernement du Québec operating subsidy | \$678 500             | \$625 386                |
| Interest on bank deposits                | <u>193</u>            | <u>439</u>               |
|                                          | <u>678 693</u>        | <u>625 825</u>           |
| <b>EXPENDITURE</b>                       |                       |                          |
| Salaries and fringe benefits             | 454 149               | 429 037                  |
| Training                                 | 777                   | 2 751                    |
| Travelling and entertainment             | 1 980                 | 2 985                    |
| Professional fees                        | 66 943                | 58 843                   |
| Rent and taxes                           | 84 767                | 85 205                   |
| Insurance                                | 2 008                 | 1 182                    |
| Maintenance and equipment rental         | 4 197                 | 4 584                    |
| Advertising                              | 29 111                | 9 939                    |
| Documentation                            | 3 298                 | 3 278                    |
| Telecommunications                       | 4 295                 | 4 173                    |
| Office supplies                          | 6 098                 | 6 272                    |
| Furniture and equipment                  | 524                   | 36                       |
| Interest and bank charges                | 949                   | 908                      |
| Amortization of fixed assets             | 4 194                 | 4 297                    |
| Amortization of intangible assets        | 681                   | 255                      |
| Other                                    | <u>1 160</u>          | <u>450</u>               |
|                                          | <u>665 131</u>        | <u>614 195</u>           |
| <b>SURPLUS FOR THE YEAR</b>              | 13 562                | 11 630                   |
| <b>DEFICIT, BEGINNING OF YEAR</b>        | <u>(12 305)</u>       | <u>(23 935)</u>          |
| <b>SURPLUS (DEFICIT), END OF YEAR</b>    | <u><u>\$1 257</u></u> | <u><u>\$(12 305)</u></u> |

The notes are an integral part of these financial statements.

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES  
ET DES ASSOCIATIONS DE PRODUCTEURS**

**BALANCE SHEET**  
as at March 31, 2005

|                                              | <u>2005</u>             | <u>2004</u>            |
|----------------------------------------------|-------------------------|------------------------|
| <b>ASSETS</b>                                |                         |                        |
| <b>Current assets</b>                        |                         |                        |
| Cash on hand                                 | \$103 456               | \$43 328               |
| Gouvernement du Québec subsidy<br>receivable |                         | 11 940                 |
| Prepaid expenses                             | <u>4 347</u>            | <u>10 974</u>          |
|                                              | 107 803                 | 66 242                 |
| <b>Fixed assets</b> (Note 3)                 | 16 047                  | 15 536                 |
| <b>Intangible assets</b> (Note 4)            | <u>7 160</u>            | <u>3 068</u>           |
|                                              | <u><u>\$131 010</u></u> | <u><u>\$84 846</u></u> |
| <b>LIABILITIES</b>                           |                         |                        |
| <b>Current liabilities</b>                   |                         |                        |
| Accounts payable and accruals                | \$48 200                | \$10 245               |
| Provision for vacation time accumulated      | <u>12 402</u>           | <u>23 604</u>          |
|                                              | 60 602                  | 33 849                 |
| <b>Provision for sick leave</b> (Note 5)     | <u>69 151</u>           | <u>63 302</u>          |
|                                              | 129 753                 | 97 151                 |
| <b>SURPLUS (DEFICIT)</b>                     | <u>1 257</u>            | <u>(12 305)</u>        |
|                                              | <u><u>\$131 010</u></u> | <u><u>\$84 846</u></u> |
| <b>CONTINGENCY</b> (Note 7)                  |                         |                        |

The notes are an integral part of these financial statements.

On behalf of the Commission,  
Jean Corriveau

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES  
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

**1. CONSTITUTION AND PURPOSE**

The Commission de reconnaissance des associations d'artistes et des associations de producteurs was established under the Act respecting the professional status and conditions of engagement of performing, recording and film artists (R.S.Q., c. S-32.1). Its duties include rendering decisions on any application for recognition submitted by an artists' or a producers' association, appointing a mediator at the request of a party to the negotiation of a group agreement and appointing an arbitrator in the event of a dispute during the negotiation of a group agreement.

Under the Canadian Income Tax Act and the Québec Taxation Act, the Commission does not pay income tax.

**2. ACCOUNTING POLICIES**

The Commission's financial statements were prepared by management on the accrual basis in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown as it would not provide any useful supplementary information regarding the Commission's cash flow during the year.

**Fixed assets**

Fixed assets are recorded at cost and amortized based on the probable length of their use according to the straight-line method at the following annual rates:

|                           |     |
|---------------------------|-----|
| Furniture and fixtures    | 10% |
| Data processing equipment | 20% |

**Intangible assets**

Intangible assets are recorded at cost and amortized based on the probable length of their use according to the straight-line method at the following annual rates:

|          |     |
|----------|-----|
| Website  | 25% |
| Software | 20% |

**3. FIXED ASSETS**

|                           | 2005            |                          |                 | 2004            |
|---------------------------|-----------------|--------------------------|-----------------|-----------------|
|                           | Cost            | Accumulated depreciation | Net             | Net             |
| Furniture and fixtures    | \$18 016        | \$9 321                  | \$8 695         | \$9 401         |
| Data processing equipment | 9 546           | 2 194                    | 7 352           | 6 135           |
|                           | <u>\$27 562</u> | <u>\$11 515</u>          | <u>\$16 047</u> | <u>\$15 536</u> |

Acquisitions for the fiscal year totalled \$4 788 (2004: \$2 930). The Commission deleted totally amortized fixed assets that were no longer used in 2005 whose cost was \$17 291 (2004: \$0).

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES  
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. INTANGIBLE ASSETS**

|          | 2005           |                          |                | 2004           |
|----------|----------------|--------------------------|----------------|----------------|
|          | Cost           | Accumulated depreciation | Net            | Net            |
| Website  | \$4 690        |                          | \$4 690        |                |
| Software | 3 406          | \$936                    | 2 470          | \$3 068        |
|          | <u>\$8 096</u> | <u>\$936</u>             | <u>\$7 160</u> | <u>\$3 068</u> |

The acquisitions for the fiscal year were \$4 690 (2004: \$2 840).

Since the website was still being developed at March 31, 2005, no amortization cost was taken for the fiscal year.

**5. FUTURE FRINGE BENEFITS**
**Pension plans**

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Pension Plan for Senior Officials (PPSO). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's contributions charged to the year-end statement amount to \$11 666 (2004: \$12 521). The liability of the Commission towards these plans is restricted to its contributions as an employer.

**Provision for sick leave**

|                               | 2005            | 2004            |
|-------------------------------|-----------------|-----------------|
| Opening balance               | \$63 302        | \$58 710        |
| Charge for the year           | 6 241           | 6 136           |
| Benefits paid during the year | <u>(392)</u>    | <u>(1 544)</u>  |
| Closing balance               | <u>\$69 151</u> | <u>\$63 302</u> |

**6. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in the financial statements and recorded at exchange value, the Commission is a related party to all government departments, special funds, agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Commission 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.

**7. CONTINGENCY**

The collective agreements of public-sector employees matured on June 30, 2003. Moreover, on January 9, 2004, the Supreme Court ruled on the wage equity issue. On June 15, 2004, the government released the budgetary framework of its payment policy which limits wage adjustment throughout the public and parapublic sectors to 12.6 % over the six-year period from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized workers, managers and health professionals and the wage equity file. The government is currently talking with the different associations, so that the financial impact remains undetermined by the Société.



**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES  
ET DES ASSOCIATIONS DE PRODUCTEURS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**8. FINANCIAL INSTRUMENTS**

The fair value of financial instruments is equal to their book value, given that they mature in the near future.

**9. COMPARATIVE FIGURES**

Certain de 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**COMMISSION DE RECONNAISSANCE DES ASSOCIATIONS D'ARTISTES  
ET DES ASSOCIATIONS DE PRODUCTEURS****MANAGEMENT'S REPORT**

---

The financial statements of the Commission de reconnaissance des associations d'artistes et des associations de producteurs were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

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 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the management to discuss any matter related to the audit.

Jean Corriveau  
President

Montréal, June 16, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Commission de reconnaissance des associations d'artistes et des associations de producteurs as at March 31, 2005, the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 16, 2005

**COMMISSION DES LÉSIONS PROFESSIONNELLES**  
(R.S.Q., c.A-3.001)

REVENUE AND EXPENDITURE AND DEFICIT FUND BALANCE  
for the year ended March 31, 2005

|                                                                     | <u>2005</u>                 | <u>2004</u>                  |
|---------------------------------------------------------------------|-----------------------------|------------------------------|
| <b>REVENUE</b>                                                      |                             |                              |
| Commission de la santé et de la sécurité<br>du travail contribution | \$50 974 832                | \$50 153 246                 |
| Gouvernement du Québec subsidy (Note 3)                             | 1 539 698                   |                              |
| Interest on bank deposits                                           | 98 677                      | 74 354                       |
| Publications and services                                           | <u>14 261</u>               | <u>23 021</u>                |
|                                                                     | <u>52 627 468</u>           | <u>50 250 621</u>            |
| <b>EXPENDITURE</b>                                                  |                             |                              |
| Salaries and fringe benefits                                        | 33 633 165                  | 33 538 144                   |
| Transportation and communications                                   | 2 333 711                   | 2 422 817                    |
| Professional services                                               | 6 953 247                   | 6 862 128                    |
| Rent and maintenance                                                | 5 099 916                   | 5 218 107                    |
| Supplies                                                            | 679 974                     | 633 756                      |
| Amortization of fixed assets                                        | 1 229 681                   | 1 499 213                    |
| Amortization of intangible assets                                   | 42 338                      | 58 685                       |
| Interest on long-term debt                                          | 33 334                      | 75 880                       |
| Other                                                               | <u>9 332</u>                | <u>15 976</u>                |
|                                                                     | <u>50 014 698</u>           | <u>50 324 706</u>            |
| <b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE</b>                 | 2 612 770                   | (74 085)                     |
| <b>FUND DEFICIT, BEGINNING OF YEAR</b>                              | <u>(11 174 686)</u>         | <u>(11 100 601)</u>          |
| <b>FUND DEFICIT, END OF YEAR</b>                                    | <u><u>\$(8 561 916)</u></u> | <u><u>\$(11 174 686)</u></u> |

The notes are an integral part of these financial statements.

**COMMISSION DES LÉSIONS PROFESSIONNELLES**BALANCE SHEET  
as at March 31, 2005

|                                                            | <u>2005</u>        | <u>2004</u>         |
|------------------------------------------------------------|--------------------|---------------------|
| <b>ASSETS</b>                                              |                    |                     |
| <b>Current assets</b>                                      |                    |                     |
| Cash and cash equivalents                                  | \$5 100 024        | \$3 170 457         |
| Accounts receivable                                        | 9 078              | 7 156               |
| Interest accrued                                           | 28 687             | 6 091               |
| Advances for travel expenses                               | 13 000             | 13 000              |
| Prepaid expenses                                           | 99 350             | 74 091              |
|                                                            | <u>5 250 139</u>   | <u>3 270 795</u>    |
| <b>Fixed assets</b> (Note 4)                               | 2 987 047          | 2 611 200           |
| <b>Intangible assets</b> (Note 5)                          | <u>140 822</u>     | <u>41 724</u>       |
|                                                            | <u>\$8 378 008</u> | <u>\$5 923 719</u>  |
| <b>LIABILITIES</b>                                         |                    |                     |
| <b>Current liabilities</b>                                 |                    |                     |
| Accounts payable and accruals                              | \$2 800 680        | \$2 477 640         |
| Instalments on long-term debt (Note 6)                     | 195 290            | 183 799             |
|                                                            | <u>2 995 970</u>   | <u>2 661 439</u>    |
| <b>Long-term debt</b> (Note 6)                             | 261 881            | 457 438             |
| <b>Provision for transition allowances</b> (Note 8)        | 3 046 951          | 3 091 319           |
| <b>Provision for sick leave and vacation time</b> (Note 8) | <u>10 635 122</u>  | <u>10 888 209</u>   |
|                                                            | <u>16 939 924</u>  | <u>17 098 405</u>   |
| <b>FUND DEFICIT</b>                                        | <u>(8 561 916)</u> | <u>(11 174 686)</u> |
|                                                            | <u>\$8 378 008</u> | <u>\$5 923 719</u>  |

The notes are an integral part of these financial statements.

On behalf of the Commission,  
Micheline Bélanger

**COMMISSION DES LÉSIONS PROFESSIONNELLES****CASH FLOW**  
for the year ended March 31, 2005

|                                                               | <u>2005</u>               | <u>2004</u>               |
|---------------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                   |                           |                           |
| Excess (deficiency) revenue over expenditure                  | \$2 612 770               | \$(74 085)                |
| Adjustments for:                                              |                           |                           |
| Amortization of fixed assets                                  | 1 229 681                 | 1 499 213                 |
| Amortization of intangible assets                             | 42 338                    | 58 685                    |
| Proceeds from disposal of fixed assets                        | (1 943)                   |                           |
| Change in provision for transition allowances                 | (44 368)                  | 75 505                    |
| Change in provision for sick leave and vacation time          | (253 087)                 | 298 423                   |
|                                                               | <u>3 585 391</u>          | <u>1 857 741</u>          |
| Variations in non-cash elements linked to operations (Note 7) | <u>(528 258)</u>          | <u>414 792</u>            |
| Cash flows provided by operating activities                   | <u>3 057 133</u>          | <u>2 272 533</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                  |                           |                           |
| Proceeds from disposal of fixed assets                        | 19 279                    |                           |
| Acquisition of fixed assets                                   | (821 343)                 | (1 238 055)               |
| Acquisition of intangible assets                              | (141 436)                 |                           |
| Cash flows used for investment activities                     | <u>(943 500)</u>          | <u>(1 238 055)</u>        |
| <b>INVESTMENT ACTIVITIES</b>                                  |                           |                           |
| Repayment of long-term debt                                   | (184 066)                 | (159 140)                 |
| Long-term debt                                                |                           | <u>164 375</u>            |
| Cash flows (used for) provided by financing activities        | <u>(184 066)</u>          | <u>5 235</u>              |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                  | 1 929 567                 | 1 039 713                 |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>           | <u>3 170 457</u>          | <u>2 130 744</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)</b>        | <u><u>\$5 100 024</u></u> | <u><u>\$3 170 457</u></u> |

The notes are an integral part of these financial statements.

## COMMISSION DES LÉSIONS PROFESSIONNELLES

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 1. CONSTITUTION, PURPOSE AND FINANCING

The 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 out of the Commission fund, which consists of 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 is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The Commission's financial statements were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Cash and cash equivalents

The Commission's policy consists in presenting under cash and cash equivalents bank balances and short-term investments maturing within three months of the date they were acquired or that convertible to cash at any time.

##### Fixed assets

Fixed assets are recorded at cost and amortized based on the probable length of their use according to the straight-line method at the following annual rates:

|                                |                                |
|--------------------------------|--------------------------------|
| Office furniture and equipment | 20%                            |
| Data processing equipment      | 33.3%                          |
| Leasehold improvements         | Term of lease, maximum 5 years |

##### Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized based on the probable length of their use according to the straight-line method at 33.3%. They undergo a depreciation test when changes in the situation indicate that their book value may not be recovered.

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 3. GOUVERNEMENT DU QUÉBEC SUBSIDY

In September 2004, the Commission received a Gouvernement du Québec subsidy to finance employer contributions recorded at March 31, 2003 in the provision for sick leave and vacation time.

#### 4. FIXED ASSETS

|                                | 2005                |                          |                    | 2004               |
|--------------------------------|---------------------|--------------------------|--------------------|--------------------|
|                                | Cost                | Accumulated depreciation | Net                | Net                |
| Office furniture and equipment | \$4 111 279         | \$3 234 539              | \$876 740          | \$689 143          |
| Data processing equipment      | 3 617 787           | 2 003 677                | 1 614 110          | 1 151 406          |
| Leasehold improvements         | 3 012 175           | 2 515 978                | 496 197            | 770 651            |
|                                | <u>\$10 741 241</u> | <u>\$7 754 194</u>       | <u>\$2 987 047</u> | <u>\$2 611 200</u> |

## COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 5. INTANGIBLE ASSETS

|          | 2005      |                          | 2004      |
|----------|-----------|--------------------------|-----------|
|          | Cost      | Accumulated depreciation | Net       |
| Software | \$532 354 | \$391 532                | \$140 822 |
|          |           |                          | \$41 724  |

## 6. LONG-TERM DEBT

|                                                                                                                                                                                 | 2005             | 2004             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Borrowings from the Société immobilière du Québec,<br>fixed rate varying from 5.52% to 6.68%, repayable<br>in monthly instalments of \$18 117, maturing<br>until September 2008 | \$457 171        | \$641 237        |
| Less: Payments falling due within a year                                                                                                                                        | 195 290          | 183 799          |
|                                                                                                                                                                                 | <u>\$261 881</u> | <u>\$457 438</u> |

Capital payments to be made over the next four fiscal years break down as follows:

|      |           |
|------|-----------|
| 2006 | \$195 290 |
| 2007 | 207 491   |
| 2008 | 35 384    |
| 2009 | 19 007    |

## 7. CASH FLOWS

|                                                     | 2005               | 2004               |
|-----------------------------------------------------|--------------------|--------------------|
| Variation in non-cash elements linked to operations |                    |                    |
| Change in accounts receivable                       | \$(1 922)          | \$30 112           |
| Change in accrued interest                          | (22 596)           | 1 778              |
| Change in advances for travel expenses              |                    | 1 506              |
| Increase in prepaid expenses                        | (25 259)           | (14 134)           |
| Change in accounts payable and accruals             | (478 481)          | 395 530            |
|                                                     | <u>\$(528 258)</u> | <u>\$414 792</u>   |
| Composition of cash and cash equivalents            |                    |                    |
| Cash on hand                                        | \$3 600 024        | \$3 170 457        |
| Term deposits (rate: 2.35%)                         | 1 500 000          |                    |
|                                                     | <u>\$5 100 024</u> | <u>\$3 170 457</u> |

Interest payments on the long-term debt over the fiscal year total \$33 334 (2004: \$39 500).

**COMMISSION DES LÉSIONS PROFESSIONNELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**8. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

Certain other employees participate in a Registered Retirement Savings Plan because they do not belong to the Public Service. The Commission pays them an amount equivalent to what it pays the other employees.

The Commission's contributions charged to the year-end statement amount to \$1 130 938 (2004: \$922 840). The liability of the Commission towards these Government plans is restricted to its contributions as an employer.

**Provision for transition allowances**

Transition allowances are payable to commissioners, other than public-service commissioners, whose mandate is not renewed or who are not seeking renewal of their mandate. 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.

|                               | 2005               | 2004               |
|-------------------------------|--------------------|--------------------|
| Opening balance               | \$3 091 319        | \$3 015 814        |
| Charge for the year           | 64 750             | 184 623            |
| Benefits paid during the year | (109 118)          | (109 118)          |
| Closing balance               | <u>\$3 046 951</u> | <u>\$3 091 319</u> |

**Provision for sick leave and vacation time**

|                               | 2005               |                    |                     | 2004                |
|-------------------------------|--------------------|--------------------|---------------------|---------------------|
|                               | Sick leave         | Vacation time      | Total               | Total               |
| Opening balance               | \$6 850 805        | \$4 037 404        | \$10 888 209        | \$10 589 786        |
| Charge for the year           | 530 586            | 2 726 238          | 3 256 824           | 3 605 004           |
| Benefits paid during the year | (722 652)          | (2 787 259)        | (3 509 911)         | (3 306 581)         |
| Closing balance               | <u>\$6 658 739</u> | <u>\$3 976 383</u> | <u>\$10 635 122</u> | <u>\$10 888 209</u> |

**9. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded 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 joint control or significant influence by it. The Commission 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.



**COMMISSION DES LÉSIONS PROFESSIONNELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**10. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value, given that they mature in the near future. The fair value of the long-term debt cannot be estimated, given the absence of markets for this type of debt.

**11. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

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**MANAGEMENT'S REPORT**

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The financial statements of the Commission des lésions professionnelles were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. 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 fulfils its financial reporting duties.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Micheline Bélanger  
Chairman

Québec, June 8, 2005

**COMMISSION DES LÉSIONS PROFESSIONNELLES****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Commission des lésions professionnelles as at March 31, 2005, the statements of revenue and expenditure, of deficit fund balance and of cash flow for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 8, 2005

**COMMISSION DES NORMES DU TRAVAIL**  
(R.S.Q., c. N-1.1)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                                                      | <u>2005</u>                | <u>2004</u>                |
|----------------------------------------------------------------------|----------------------------|----------------------------|
| <b>REVENUE</b>                                                       |                            |                            |
| Employer contributions (Note 3)                                      | \$48 536 499               | \$49 857 623               |
| Interest on investments                                              | 655 497                    | 953 493                    |
| Other (Note 4)                                                       | <u>293 608</u>             | <u>316 933</u>             |
|                                                                      | <u>49 485 604</u>          | <u>51 128 049</u>          |
| <b>EXPENDITURE</b>                                                   |                            |                            |
| Salaries and fringe benefits                                         | 31 953 904                 | 29 362 423                 |
| Fees                                                                 | 2 253 969                  | 2 780 241                  |
| Travelling expenses                                                  | 1 364 573                  | 1 261 738                  |
| Telecommunications and mail                                          | 1 301 702                  | 1 024 551                  |
| Advertising and information                                          | 632 527                    | 1 479 416                  |
| Rental of office space, equipment and other                          | 3 416 777                  | 3 358 303                  |
| Maintenance                                                          | 868 438                    | 867 553                    |
| Supplies                                                             | 683 745                    | 694 286                    |
| Bank charges                                                         | 11 535                     | 11 554                     |
| Depreciation of fixed assets                                         | 1 579 371                  | 1 508 447                  |
| Net loss on disposal of fixed assets                                 | 11 552                     | 5 470                      |
| Write-off of computer system development                             |                            | <u>2 013 520</u>           |
|                                                                      | <u>44 078 093</u>          | <u>44 367 502</u>          |
| Agreements with the Gouvernement du Québec (Note 11):                |                            |                            |
| Revenu Québec collection fee                                         | 402 888                    | 410 701                    |
| Reimbursement of expenses of the Commission des relations du travail | <u>6 121 440</u>           | <u>4 952 800</u>           |
|                                                                      | <u>50 602 421</u>          | <u>49 731 003</u>          |
| <b>(DEFICIENCY) EXCESS REVENUE<br/>OVER EXPENDITURE</b>              | (1 116 817)                | 1 397 046                  |
| <b>SURPLUS, BEGINNING OF YEAR</b>                                    | <u>52 191 401</u>          | <u>50 794 355</u>          |
| <b>SURPLUS, END OF YEAR</b>                                          | <u><u>\$51 074 584</u></u> | <u><u>\$52 191 401</u></u> |

The notes are an integral part of these financial statements.

**COMMISSION DES NORMES DU TRAVAIL**BALANCE SHEET  
as at March 31, 2005

|                                                       | <u>2005</u>         | <u>2004</u>         |
|-------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                         |                     |                     |
| <b>Current assets</b>                                 |                     |                     |
| Cash on hand                                          |                     | \$233 566           |
| Short-term investments – at cost (Note 5)             | \$47 152 017        | 53 356 681          |
| Accounts receivable                                   | 126 041             | 455 933             |
| Interest accrued on investments                       | 67 189              | 79 162              |
|                                                       | <u>47 345 247</u>   | <u>54 125 342</u>   |
| <b>Fixed assets</b> (Note 6)                          | <u>19 333 859</u>   | <u>13 215 431</u>   |
|                                                       | <u>\$66 679 106</u> | <u>\$67 340 773</u> |
| <b>LIABILITIES</b>                                    |                     |                     |
| <b>Current liabilities</b>                            |                     |                     |
| Outstanding cheques less cash on hand                 | \$32 943            |                     |
| Accounts payable and accruals (Note 7)                | 4 832 633           | \$4 765 903         |
| Claims collected for remittance to employees (Note 8) | 162 553             | 354 765             |
| Vacation allowance payable (Note 9)                   | 4 445 092           | 3 841 575           |
|                                                       | <u>9 473 221</u>    | <u>8 962 243</u>    |
| <b>Allowance for sick leave</b> (Note 9)              | 6 131 301           | 6 187 129           |
| <b>SURPLUS</b> (Note 10)                              | <u>51 074 584</u>   | <u>52 191 401</u>   |
|                                                       | <u>\$66 679 106</u> | <u>\$67 340 773</u> |
| <b>COMMITMENTS</b> (Note 11)                          |                     |                     |

The notes are an integral part of these financial statements.

On behalf of the Commission,  
Jocelyn Girard  
Jacques Fortin

**COMMISSION DES NORMES DU TRAVAIL****CASH FLOWS**  
for the year ended March 31, 2005

|                                                         | <u>2005</u>         | <u>2004</u>         |
|---------------------------------------------------------|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                             |                     |                     |
| (Deficiency) Excess revenue over expenditure            | \$(1 116 817)       | \$1 397 046         |
| Adjustments for:                                        |                     |                     |
| Depreciation of fixed assets                            | 1 579 371           | 1 508 447           |
| Net loss on disposal of fixed assets                    | 11 552              | 5 470               |
| Write-off of computer system development                |                     | 2 013 520           |
| Change in allowance for sick leave                      | <u>(55 828)</u>     | <u>246 050</u>      |
|                                                         | 418 278             | 5 170 533           |
| Change in non-cash elements related to operations:      |                     |                     |
| Change in accounts receivable                           | 329 892             | (284 807)           |
| Decrease in interest accrued on investments             | 11 973              | 11 081              |
| Increase in accounts payable and accruals               | 792 194             | 706 386             |
| Change in claims collected for remittance to employees  | (192 212)           | 178 865             |
| Increase in vacation allowance payable                  | <u>603 517</u>      | <u>335 187</u>      |
|                                                         | 1 545 364           | 946 712             |
| Cash flows provided by operating activities             | <u>1 963 642</u>    | <u>6 117 245</u>    |
| <b>INVESTMENT ACTIVITIES</b>                            |                     |                     |
| Variation in short-term investments                     | 3 100 000           | (9 300 000)         |
| Acquisition of fixed assets                             | (8 435 315)         | (6 719 057)         |
| Proceeds from disposal of fixed assets                  | <u>500</u>          |                     |
| Cash flows used for investment activities               | <u>(5 334 815)</u>  | <u>(16 019 057)</u> |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>            | (3 371 173)         | (9 901 812)         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <u>32 290 247</u>   | <u>42 192 059</u>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 12)</b> | <u>\$28 919 074</u> | <u>\$32 290 247</u> |

The notes are an integral part of these financial statements.

**COMMISSION DES NORMES DU TRAVAIL**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

The Commission des normes du travail, 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 is responsible for overseeing the implementation and application of labour standards. More specifically, it must inform the population on matters dealing with labour standards, supervise the application of labour standards and, when necessary, transmit its recommendations to the Minister. The Commission also receives complaints from employees and must indemnify the latter to the extent provided for in the Act and regulations respecting labour standards and endeavour to work out agreements between employers and employees concerning their different positions on the application of said Act and regulations.

Under section 984 of the Québec Taxation Act (R.S.Q., c. I-3) and section 149 of the Canadian Income Tax Act (L.R.C., 1985, Chap. 1 (5<sup>e</sup> Suppl.)), the Commission is subject to income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Commission were prepared by management on the accrual basis in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Short-term investments**

Investments are recorded at cost or market value, whichever is less.

**Cash and cash equivalents**

The Commission's policy consists in presenting cash and cash equivalents, liquid assets, bank balances and short-term investments, maturing within three months or negotiable as well as outstanding cheques less cash.

**Fixed assets**

Fixed assets are recorded at their historic cost and depreciated on a straight-line basis at the following rates:

|                                        | <u>Rate</u> |
|----------------------------------------|-------------|
| Equipment                              | 20%         |
| Furniture                              | 20%         |
| Automotive equipment                   | 33 1/3%     |
| Leasehold improvements                 | 20%         |
| Data processing equipment and software | 33 1/3%     |
| Computer systems                       | 10% and 20% |

**Employer contributions**

Revenue from employer contributions is collected by Revenu Québec. This revenue, determined jointly with Revenu Québec, is recorded according to an estimate based on the payroll for the preceding calendar year. It remains subject to auditing and rectification and, where applicable, adjustments are posted to revenue from employer contributions is the year they are discovered.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

## COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**3. EMPLOYER CONTRIBUTIONS**

|                                                                                                                      | 2005                       | 2004                       |
|----------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Estimated revenue for the year                                                                                       | <u>\$49 830 094</u>        | <u>\$49 916 702</u>        |
| (Decrease) increase in revenue related to previous fiscal years                                                      |                            |                            |
| Fiscal 2004                                                                                                          | (1 125 912)                |                            |
| Fiscal 2003                                                                                                          | (213 707)                  | (938 428)                  |
| Fiscal 2002                                                                                                          | 51 724                     | (74 617)                   |
| Fiscal 2001                                                                                                          | 1 479                      | 48 093                     |
| Fiscal 2000                                                                                                          | (1 155)                    | 495 322                    |
| Other fiscal years                                                                                                   | <u>(6 024)</u>             | <u>410 551</u>             |
|                                                                                                                      | <u>(1 293 595)</u>         | <u>(59 079)</u>            |
|                                                                                                                      | <u><u>\$48 536 499</u></u> | <u><u>\$49 857 623</u></u> |
| Growth rate applied to the payroll for the previous calendar year to establish revenue for the fiscal year           | <u>3.1%</u>                | <u>4.47%</u>               |
| Payroll subject to previous calendar year, used to estimate the revenue for the fiscal year (in millions of dollars) | <u>62 288</u>              | <u>62 396</u>              |

**4. OTHER REVENUE**

|                                                          | 2005                    | 2004                    |
|----------------------------------------------------------|-------------------------|-------------------------|
| Claims collected for employees that could not be located | \$25 693                | \$29 163                |
| Sales of publications                                    | 3 569                   | 3 124                   |
| Recovery of legal costs                                  | 263 400                 | 200 286                 |
| Employer seminars                                        |                         | 83 805                  |
| Miscellaneous                                            | <u>946</u>              | <u>555</u>              |
|                                                          | <u><u>\$293 608</u></u> | <u><u>\$316 933</u></u> |

**5. SHORT-TERM INVESTMENTS**

|                      | 2005                       | 2004                       |
|----------------------|----------------------------|----------------------------|
| Short-term deposits  | \$26 150 000               | \$32 750 000               |
| Discount note        | 4 628 607                  | 4 975 000                  |
| Bankers' acceptances | <u>16 373 410</u>          | <u>15 631 681</u>          |
|                      | <u><u>\$47 152 017</u></u> | <u><u>\$53 356 681</u></u> |

Interest rates vary from 2.54% to 2.81% (2004: 2.10% to 2.40%). These investments mature in the coming fiscal year.

**COMMISSION DES NORMES DU TRAVAIL**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**6. FIXED ASSETS**

|                                        | 2005                |                          | 2004                |
|----------------------------------------|---------------------|--------------------------|---------------------|
|                                        | Cost                | Accumulated depreciation | Net                 |
| Equipment                              | \$1 669 967         | \$1 111 254              | \$558 713           |
| Furniture                              | 1 736 444           | 612 096                  | 1 124 348           |
| Automotive equipment                   | 26 472              | 16 227                   | 10 245              |
| Leasehold improvements                 | 4 813 810           | 3 268 362                | 1 545 448           |
| Data processing equipment and software | 7 586 796           | 6 978 290                | 608 506             |
| Computer systems                       | 15 935 477          | 448 878                  | 15 486 599          |
|                                        | <u>\$31 768 966</u> | <u>\$12 435 107</u>      | <u>\$19 333 859</u> |
|                                        |                     |                          | <u>\$13 215 431</u> |

Fixed assets classified under the heading "Computer systems", in the amount of \$14 851 739 (2004: \$9 488 584), were not amortized. At the end of the fiscal year, development work was completed, but the computer system was not operational.

**7. SUPPLIERS AND ACCRUED LIABILITY**

On January 17, 2005, the government signed an agreement in principle with the Association des juristes de l'État regarding the main terms and conditions of their payment. An amount of \$1 272 927 for retroactive application of the wages of lawyers of the Commission is included under suppliers and accrued liability at March 31, 2005 (2004: \$147 350).

**8. CLAIMS COLLECTED PAYABLE TO EMPLOYEES**

|                                                                                  | 2005             | 2004             |
|----------------------------------------------------------------------------------|------------------|------------------|
| Payable at the beginning of the year                                             | \$354 765        | \$175 900        |
| Claims collected by employers                                                    | <u>2 478 528</u> | <u>3 199 411</u> |
|                                                                                  | <u>2 833 293</u> | <u>3 375 311</u> |
| Claims paid to employees                                                         | 2 645 047        | 2 993 584        |
| Transfer to income from claims collected for employees that could not be located | <u>25 693</u>    | <u>26 962</u>    |
|                                                                                  | <u>2 670 740</u> | <u>3 020 546</u> |
| Payable at fiscal year-end                                                       | <u>\$162 553</u> | <u>\$354 765</u> |

**9. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are defined-benefit interenterprise plans and include guaranteed payments on retirement and death.

The Commission's contributions charged to the year-end statement amount to \$1 005 612 (2004: \$882 739). The Commission's liability towards these Government plans is restricted to its contributions as an employer.



## COMMISSION DES NORMES DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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

|                               | 2005               |                    | 2004               |                    |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
|                               | Sick leave         | Vacation pay       | Sick leave         | Vacation pay       |
| Opening balance               | \$6 187 129        | \$3 841 575        | \$5 941 079        | \$3 506 388        |
| Charge for the year           | 819 480            | 3 238 784          | 1 326 987          | 2 881 754          |
| Benefits paid during the year | (875 308)          | (2 635 267)        | (1 080 937)        | (2 546 567)        |
| Closing balance               | <u>\$6 131 301</u> | <u>\$4 445 092</u> | <u>\$6 187 129</u> | <u>\$3 841 575</u> |

**10. SURPLUS**

The Commission receives approximately 98% of its revenue during the last month of its fiscal year. Its operations, among other things, are financed from its surplus represented essentially by short-term investments. For example, the \$51 074 584 surplus as at March 31, 2005, will be used to finance about 92% of the operating expenses and the acquisition of fixed assets anticipated for the first eleven months of the coming year.

**11. COMMITMENTS**

Under section 6.1 of the Act respecting labour standards, the Commission entered into an agreement with Revenu Québec. This agreement, which expired on December 31, 2002 and could be renewed for five years, makes provisions for having Revenu Québec collect employer contributions, in exchange for collection fees that are indexed annually to reflect the consumer price index. Negotiations between the two parties are currently under way for fiscal 2006 in order to determine the terms and conditions of the next agreement. Collection fees totalled \$402 888 and were posted to results for fiscal 2005 (2004 : \$410 701).

Under section 28.1 of the Act respecting labour standards, the Commission contributes to the Commission des relations du travail fund to cover the expenses related to the provisions of this Act concerning recourse against a prohibited practice and against dismissal without just and sufficient cause. The amount of the Commission des normes du travail contribution is set by the Government, after the Minister consults the Commission. The amount of the contribution was set at \$6 121 440 for fiscal 2005 (2004: \$4 952 800). The amount of the contribution for fiscal 2006 has not yet been set. However, it will be 46% (2005: \$46.8) of the Commission des relations du travail's costs, excluding certain expenses specific to the Commission.

**12. CASH AND CASH EQUIVALENTS**

|                                       | 2005                | 2004                |
|---------------------------------------|---------------------|---------------------|
| Outstanding cheques less cash on hand | \$(32 943)          |                     |
| Cash on hand                          |                     | \$233 566           |
| Short-term investments                | 28 952 017          | 32 056 681          |
|                                       | <u>\$28 919 074</u> | <u>\$32 290 247</u> |

**13. FINANCIAL INSTRUMENTS**

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

**COMMISSION DES NORMES DU TRAVAIL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**14. 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 either joint control or significant influence by it. The Commission did not carry out 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. CONTINGENCY**

The collective agreements of public-sector employees ended on June 30, 2003. On June 15, 2004, the government released the budgetary framework of its payment policy which limits wage adjustment throughout the public and parapublic sectors to 12.6 % over the six-year period from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized workers, managers and health professionals and the wage equity file. The government is currently talking with the different associations, so that the financial impact remains undetermined by the Commission. If the new collective agreements provide for retroactive wage measures, the amounts in question will be posted to the results of the fiscal year in which they can be estimated and probable.

**COMMISSION DES NORMES DU TRAVAIL****MANAGEMENT'S REPORT**

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The financial statements of the Commission des normes du travail were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Commission 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 audit committee, whose members are not management employees. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Jocelyn Girard  
Acting President and Chief Executive Officer

Andrée Blanchet  
Director General, Administration

Québec, May 3, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Commission des normes du travail as at March 31, 2005, the statement of revenue and expenditure and surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of Commission management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 3, 2005

**COMMISSION DES RELATIONS DU TRAVAIL**  
(R.S.Q., c. C-27)

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                        | 2005                    | 2004                      |
|--------------------------------------------------------|-------------------------|---------------------------|
| <b>REVENUE</b>                                         |                         |                           |
| Contributions                                          |                         |                           |
| Gouvernement du Québec – Ministère du Travail          | \$7 448 060             | \$7 127 200               |
| Commission des normes du travail                       | 6 121 440               | 4 952 800                 |
| Sales of forms and documents                           | 13 209                  | 15 212                    |
| Interest                                               | 18 951                  | 22 284                    |
|                                                        | <u>13 601 660</u>       | <u>12 117 496</u>         |
| <b>EXPENDITURE</b>                                     |                         |                           |
| Salaries and fringe benefits                           | 9 325 850               | 9 034 900                 |
| Transportation and communication services              | 778 879                 | 538 902                   |
| Professional and administrative services               | 1 216 583               | 1 204 068                 |
| Maintenance and repairs                                | 58 218                  | 41 869                    |
| Rent                                                   | 1 298 093               | 1 281 131                 |
| Furnishings and supplies                               | 84 934                  | 81 986                    |
| Material and equipment                                 | 46 360                  | 20 432                    |
| Other expenses                                         | 3 048                   | 11 243                    |
| Depreciation of                                        |                         |                           |
| Fixed assets                                           | 152 303                 | 137 191                   |
| Intangible assets                                      | 78 678                  | 31 623                    |
| Doubtful debts                                         |                         | 77                        |
|                                                        | <u>13 042 946</u>       | <u>12 383 422</u>         |
| <b>SURPLUS (INSUFFICIENT) REVENUE OVER EXPENDITURE</b> | <u><u>\$558 714</u></u> | <u><u>\$(265 926)</u></u> |

The notes are an integral part of these financial statements.

SURPLUS  
for the year ended March 31, 2005

|                                                 | 2005                   | 2004                      |
|-------------------------------------------------|------------------------|---------------------------|
| <b>DEFICIT, BEGINNING OF YEAR</b>               | \$(528 498)            | \$(262 572)               |
| Surplus (insufficient) revenue over expenditure | <u>558 714</u>         | <u>(265 926)</u>          |
| <b>SURPLUS (DEFICIT), END OF YEAR</b>           | <u><u>\$30 216</u></u> | <u><u>\$(528 498)</u></u> |

The notes are an integral part of these financial statements.

## COMMISSION DES RELATIONS DU TRAVAIL

BALANCE SHEET  
as at March 31, 2005

|                                                                                                                  | <u>2005</u>        | <u>2004</u>        |
|------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                                                                    |                    |                    |
| <b>Current assets</b>                                                                                            |                    |                    |
| Cash on hand                                                                                                     | \$10 574           | \$618              |
| Accounts receivable                                                                                              | 109 722            | 401 754            |
| Advance to the Consolidated Revenue Fund<br>without terms of repayment,<br>interest at the prime rate minus 2.5% | 3 060 136          | 1 562 795          |
| Owed by the Gouvernement du Québec (Note 3)                                                                      | <u>181 622</u>     | <u>181 622</u>     |
|                                                                                                                  | 3 362 054          | 2 146 789          |
| <b>Owed by the Gouvernement du Québec (Note 3)</b>                                                               | 414 161            | 595 783            |
| <b>Fixed assets (Note 4)</b>                                                                                     | 224 375            | 287 470            |
| <b>Intangible assets (Note 5)</b>                                                                                | <u>272 545</u>     | <u>351 222</u>     |
|                                                                                                                  | <u>\$4 273 135</u> | <u>\$3 381 264</u> |
| <b>LIABILITIES</b>                                                                                               |                    |                    |
| <b>Current liabilities</b>                                                                                       |                    |                    |
| Accounts payable and accruals                                                                                    | \$506 898          | \$534 223          |
| <b>Provision for transition allowances (Note 6)</b>                                                              | 755 330            | 516 254            |
| <b>Provision for sick leave and vacation time (Note 6)</b>                                                       | <u>2 980 691</u>   | <u>2 859 285</u>   |
|                                                                                                                  | 4 242 919          | 3 909 762          |
| <b>SURPLUS (DEFICIT)</b>                                                                                         | <u>30 216</u>      | <u>(528 498)</u>   |
|                                                                                                                  | <u>\$4 273 135</u> | <u>\$3 381 264</u> |
| <b>COMMITMENTS (Note 7)</b>                                                                                      |                    |                    |
| <b>CONTINGENCIES (Note 10)</b>                                                                                   |                    |                    |

The notes are an integral part of these financial statements.

On behalf of the Commission,  
Andrée St-Georges, Chairman

**COMMISSION DES RELATIONS DU TRAVAIL**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION, PURPOSE AND FINANCEMENT**

The Commission des relations du travail constituted under the Labour Code (R.S.Q., c. C-27) is mandated to hear and have access to a range of recourses linked to employment and labour relations in Québec. It assumes the decision-making responsibilities formerly attributed to the Bureau du commissaire général du travail in terms of collective labour relations. It is in charge of 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 approximately 24 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 the appropriations 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 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**

The Commission's financial statements were prepared by management in keeping with the accounting principles generally recognized in Canada. These financial statements include amounts based on best judgements and estimates. No cash flow statement has been presented since it does not provide additional information that would be useful in understanding cash flows during the fiscal year.

**Fixed assets**

Fixed assets are recorded at cost. They are amortized according to their probable use using the straight-line method and the following rates:

|                                 | <u>Rates</u> |
|---------------------------------|--------------|
| Office furniture                | 20 %         |
| Computer material and equipment | 33 1/3 %     |

**Intangible assets**

Computer development is recorded at cost and amortized according to its probable use using the straight-line method at 20%. It undergoes a depreciation test when changes in the situation indicate that its book value may not be recovered. Any excess in the book value over the fair value is posted to the results of the period in which the depreciation was determined.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

## COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 3. OWED BY THE GOUVERNEMENT DU QUÉBEC

The amount owed by the Gouvernement du Québec does not bear interest. The terms and conditions of repayment are the following:

|                          |                         |
|--------------------------|-------------------------|
| 2006                     | \$181 622               |
| 2007                     | 181 622                 |
| 2008                     | <u>232 539</u>          |
|                          | 595 783                 |
| Less: Short-term portion | <u>181 622</u>          |
|                          | <u><u>\$414 161</u></u> |

### 4. FIXED ASSETS

|                                 | 2005                    |                          |                         | 2004                    |
|---------------------------------|-------------------------|--------------------------|-------------------------|-------------------------|
|                                 | Cost                    | Accumulated depreciation | Net value               | Net value               |
| Office furniture                | \$47 651                | \$19 371                 | \$28 280                | \$37 811                |
| Computer material and equipment | <u>487 402</u>          | <u>291 307</u>           | <u>196 095</u>          | <u>249 659</u>          |
|                                 | <u><u>\$535 053</u></u> | <u><u>\$310 678</u></u>  | <u><u>\$224 375</u></u> | <u><u>\$287 470</u></u> |

Acquisitions of fixed assets for the fiscal year totalled \$89 209 (2004: \$21 171).

### 5. INTANGIBLE ASSETS

|                      | 2005             |                          |                  | 2004             |
|----------------------|------------------|--------------------------|------------------|------------------|
|                      | Cost             | Accumulated depreciation | Net value        | Net value        |
| Computer development | <u>\$393 387</u> | <u>\$120 842</u>         | <u>\$272 545</u> | <u>\$351 222</u> |

No intangible assets were acquired during the fiscal year (2004: \$235 270).

### 6. FUTURE FRINGE BENEFITS

#### Pension plans

The staff members of the Commission participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Commission's contributions charged to the year-end statement amount to \$306 259 (2004: \$290 426). The liability of the Commission towards these Government plans is restricted to its contributions as an employer.

#### Provision for transition allowances

Transition allowances are payable to commissioners whose mandate is not renewed or who are not seeking renewal of their mandate. 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.

**COMMISSION DES RELATIONS DU TRAVAIL**

NOTES TO FINANCIAL STATEMENTS (cont'd))  
March 31, 2005

**6. FUTURE FRINGE BENEFITS (cont'd)****Provision for transition allowances (cont'd)**

|                     | 2005             | 2004             |
|---------------------|------------------|------------------|
| Opening balance     | \$516 254        | \$293 196        |
| Charge for the year | 255 934          | 223 058          |
| Use in the year     | (16 858)         |                  |
| Closing balance     | <u>\$755 330</u> | <u>\$516 254</u> |

**Provision for sick leave and vacation time**

|                               | 2005               |                    |                    | 2004               |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
|                               | Sick leave         | Vacation time      | Total              | Total              |
| Opening balance               | \$1 756 761        | \$1 102 523        | \$2 859 284        | \$2 558 583        |
| Charge for the year           | 274 812            | 765 223            | 1 040 035          | 1 097 487          |
| Benefits paid during the year | (252 856)          | (665 772)          | (918 628)          | (796 765)          |
| Closing balance               | <u>\$1 778 717</u> | <u>\$1 201 974</u> | <u>\$2 980 691</u> | <u>\$2 859 305</u> |

**7. COMMITMENTS**

The Commission is committed to paying sums under a service agreement of the Ministère du Travail. The amount of these commitments for the coming fiscal year is \$976 938.

**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 either joint control or significant influence by it. The Commission 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.

**9. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value, given that they mature in the near future. The fair value of the amount owed by the Gouvernement du Québec cannot be estimated, given the absence of markets for this type of instrument.

**10. CONTINGENCIES**

The collective agreements of public-sector employees ended on June 30, 2003. Moreover, on January 9, 2004, the Supreme Court ruled on the wage equity issue. On June 15, 2004, the government released the budgetary framework of its payment policy which limits wage adjustment throughout the public and parapublic sectors to 12.6 % over the six-year period from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized workers, managers and health professionals and the wage equity file. The government is currently talking with the different associations, so that the financial impact remains undetermined for the Commission des relations du travail.

**11. COMPARATIVE FIGURES**

Certain figures from the 2004 financial statements have been reclassified in order to comply with the presentation adopted in 2005.



## COMMISSION DES RELATIONS DU TRAVAIL

### MANAGEMENT'S REPORT

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The financial statements of the Commission des relations du travail were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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 the auditing standards that are generally accepted in Canada. 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 2, 2005

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### AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the Commission des relations du travail as at March 31, 2005, the statement of revenue and expenditure, and the statement of surplus for the year then ended. These financial statements are the responsibility of Commission management. It is my responsibility to express an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 2, 2005

**COMMISSION DES SERVICES JURIDIQUES**

(R.S.Q., c. A-14)

**GENERAL FUND****CONSOLIDATED RESULTS**

for the year ended March 31, 2005

|                               | <u>Operations</u>  |                    | <u>Private practice (Section 52)</u> |                   | <u>Total</u>       |                    |
|-------------------------------|--------------------|--------------------|--------------------------------------|-------------------|--------------------|--------------------|
|                               | <u>2005</u>        | <u>2004</u>        | <u>2005</u>                          | <u>2004</u>       | <u>2005</u>        | <u>2004</u>        |
| <b>REVENUE</b>                |                    |                    |                                      |                   |                    |                    |
| Gouvernement du Québec grants |                    |                    |                                      |                   |                    |                    |
| Regular                       | \$78 636 300       | \$70 937 900       | \$46 794 800                         | \$49 055 396      | \$125 431 100      | \$119 993 296      |
| Court costs                   | <u>1 289 502</u>   | <u>1 196 687</u>   | <u>905 498</u>                       | <u>998 313</u>    | <u>2 195 000</u>   | <u>2 195 000</u>   |
|                               | 79 925 802         | 72 134 587         | 47 700 298                           | 50 053 709        | 127 626 100        | 122 188 296        |
| <b>EXPENDITURE</b> (Note 8)   | <u>81 610 314</u>  | <u>72 651 721</u>  | <u>46 602 950</u>                    | <u>49 782 947</u> | <u>128 213 264</u> | <u>122 434 668</u> |
|                               | (1 684 512)        | (517 134)          | 1 097 348                            | 270 762           | (587 164)          | (246 372)          |
| <b>OTHER REVENUE</b>          |                    |                    |                                      |                   |                    |                    |
| (Note 5)                      | <u>1 563 280</u>   | <u>1 607 894</u>   | <u>619 640</u>                       | <u>579 389</u>    | <u>2 182 920</u>   | <u>2 187 283</u>   |
| <b>EXCESS</b>                 |                    |                    |                                      |                   |                    |                    |
| <b>(INSUFFICIENT)</b>         |                    |                    |                                      |                   |                    |                    |
| <b>REVENUE OVER</b>           |                    |                    |                                      |                   |                    |                    |
| <b>EXPENDITURE</b>            | <u>\$(121 232)</u> | <u>\$1 090 760</u> | <u>\$1 716 988</u>                   | <u>\$850 151</u>  | <u>\$1 595 756</u> | <u>\$1 940 911</u> |

This information is an integral part of the consolidated financial statements.

## COMMISSION DES SERVICES JURIDIQUES

## GENERAL FUND

CHANGE IN CONSOLIDATED NET ASSETS  
for the year ended March 31, 2005

|                                                                                                   | 2005               |                                           |                    | 2004               |                                           |                    |
|---------------------------------------------------------------------------------------------------|--------------------|-------------------------------------------|--------------------|--------------------|-------------------------------------------|--------------------|
|                                                                                                   | General<br>reserve | Net assets<br>invested in<br>fixed assets | Total              | General<br>reserve | Net assets<br>invested in<br>fixed assets | Total              |
| <b>OPENING BALANCE</b>                                                                            |                    |                                           |                    |                    |                                           |                    |
| Previously established                                                                            | \$5 757 732        | \$1 325 140                               | \$7 082 872        | \$3 837 118        |                                           | \$3 837 118        |
| Adjustment to previous<br>fiscal years<br>(Note 3)                                                |                    |                                           |                    |                    | \$1 543 583                               | 1 543 583          |
| <b>ADJUSTED BALANCE</b>                                                                           | <u>5 757 732</u>   | <u>1 325 140</u>                          | <u>7 082 872</u>   | <u>3 837 118</u>   | <u>1 543 583</u>                          | <u>5 380 701</u>   |
| <b>OPERATIONS</b>                                                                                 |                    |                                           |                    |                    |                                           |                    |
| Excess (insufficient)<br>revenue over expenditure<br>before using the general<br>reserve (Note 6) | 941 006            | (765 265)                                 | 175 741            | 2 811 790          | (906 318)                                 | 1 905 472          |
| Application to the general<br>reserve (Note 7)                                                    |                    |                                           |                    |                    |                                           |                    |
| Director plan                                                                                     | <u>(296 973)</u>   |                                           | <u>(296 973)</u>   | <u>(814 712)</u>   |                                           | <u>(814 712)</u>   |
| Net excess (insufficient)<br>revenue over<br>expenditure                                          | 644 033            | (765 265)                                 | (121 232)          | 1 997 078          | (906 318)                                 | 1 090 760          |
| Investments in fixed assets:                                                                      |                    |                                           |                    |                    |                                           |                    |
| Application to the general<br>reserve (Note 7)                                                    | (230 110)          | 230 110                                   |                    | (209 239)          | 209 239                                   |                    |
| From operations for the<br>fiscal year                                                            | (190 956)          | 190 956                                   |                    | (271 149)          | 271 149                                   |                    |
| Instalments on capital lease<br>contracts:                                                        |                    |                                           |                    |                    |                                           |                    |
| Application to the general<br>reserve (Note 7)                                                    |                    |                                           |                    | (57 574)           | 57 574                                    |                    |
| From operations for the<br>fiscal year                                                            | (128 099)          | 128 099                                   |                    | (149 913)          | 149 913                                   |                    |
| Transfers to the Professional<br>Liability Fund and Fire<br>and Theft Fund                        |                    |                                           |                    | <u>(238 740)</u>   |                                           | <u>(238 740)</u>   |
|                                                                                                   | <u>94 868</u>      | <u>(216 100)</u>                          | <u>(121 232)</u>   | <u>1 070 463</u>   | <u>(218 443)</u>                          | <u>852 020</u>     |
| <b>PRIVATE PRACTICE</b>                                                                           |                    |                                           |                    |                    |                                           |                    |
| Excess revenue over<br>expenditure before using<br>the general reserve                            | 1 716 988          |                                           | 1 716 988          | 1 478 536          |                                           | 1 478 536          |
| Application to the general<br>reserve (Note 7)                                                    |                    |                                           |                    | <u>(628 385)</u>   |                                           | <u>(628 385)</u>   |
| Net excess of revenue over<br>expenditure (expenditure<br>over revenue)                           | <u>1 716 988</u>   |                                           | <u>1 716 988</u>   | <u>850 151</u>     |                                           | <u>850 151</u>     |
| <b>CLOSING BALANCE</b>                                                                            | <u>\$7 569 588</u> | <u>\$1 109 040</u>                        | <u>\$8 678 628</u> | <u>\$5 757 732</u> | <u>\$1 325 140</u>                        | <u>\$7 082 872</u> |

**COMMISSION DES SERVICES JURIDIQUES**

CHANGE IN BALANCES OF THE PROFESSIONAL LIABILITY FUND  
AND FIRE AND THEFT FUND  
for the year ended March 31, 2005

|                                                     | 2005                              |                           |                  | 2004             |
|-----------------------------------------------------|-----------------------------------|---------------------------|------------------|------------------|
|                                                     | Professional<br>Liability<br>Fund | Fire and<br>Theft<br>Fund | Total            | Total            |
| <b>OPENING BALANCE</b>                              | \$500 000                         | \$300 000                 | \$800 000        | \$561 260        |
| Transfer from the General<br>Fund's general reserve |                                   |                           |                  | 238 740          |
| <b>CLOSING BALANCE</b>                              | <u>\$500 000</u>                  | <u>\$300 000</u>          | <u>\$800 000</u> | <u>\$800 000</u> |

**COMMISSION DES SERVICES JURIDIQUES**

## GENERAL FUND

CONSOLIDATED BALANCE SHEET  
as at March 31, 2005

|                                                                                 | General<br>Fund     | Professional<br>Liability<br>Fund | Fire and<br>Theft<br>Fund | 2005                | 2004                |
|---------------------------------------------------------------------------------|---------------------|-----------------------------------|---------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                   |                     |                                   |                           |                     |                     |
| <b>Current assets</b>                                                           |                     |                                   |                           |                     |                     |
| Cash on hand (Note 4)                                                           | \$12 412 436        | \$20 594                          | \$13 224                  | \$12 446 254        | \$10 562 968        |
| Accounts receivable (Note 10)                                                   | 12 658 094          |                                   |                           | 12 658 094          | 1 350 419           |
| Prepaid expenses                                                                | 412 540             |                                   |                           | 412 540             | 317 673             |
| Advances on deferred salaries                                                   | 52 964              |                                   |                           | 52 964              | 45 144              |
| Short-term investments (Note 11)                                                |                     | 500 000                           | 300 000                   | 800 000             | 800 000             |
|                                                                                 | <u>25 536 034</u>   | <u>520 594</u>                    | <u>313 224</u>            | <u>26 369 852</u>   | <u>13 076 204</u>   |
| <b>Fixed assets</b> (Note 12)                                                   | <u>2 340 452</u>    |                                   |                           | <u>2 340 452</u>    | <u>1 978 262</u>    |
|                                                                                 | <u>\$27 876 486</u> | <u>\$520 594</u>                  | <u>\$313 224</u>          | <u>\$28 710 304</u> | <u>\$15 054 466</u> |
| <b>LIABILITIES</b>                                                              |                     |                                   |                           |                     |                     |
| <b>Current liabilities</b>                                                      |                     |                                   |                           |                     |                     |
| Accounts payable (Note 13)                                                      | \$15 315 459        | \$20 594                          | \$13 224                  | \$15 349 277        | \$4 729 500         |
| Deferred salaries                                                               | 127 075             |                                   |                           | 127 075             | 228 644             |
| Amounts collected in advance<br>(Note 14)                                       | 2 523 912           |                                   |                           | 2 523 912           | 1 560 328           |
| Short-term portion of<br>obligations under capital lease<br>contracts (Note 16) | 140 877             |                                   |                           | 140 877             | 126 623             |
|                                                                                 | <u>18 107 323</u>   | <u>20 594</u>                     | <u>13 224</u>             | <u>18 141 141</u>   | <u>6 645 095</u>    |
| <b>Deferred special grants related to<br/>fixed assets</b> (Note 15)            | 934 059             |                                   |                           | 934 059             | 272 803             |
| <b>Obligations under capital lease<br/>contracts</b> (Note 16)                  | <u>156 476</u>      |                                   |                           | <u>156 476</u>      | <u>253 696</u>      |
|                                                                                 | <u>19 197 858</u>   | <u>20 594</u>                     | <u>13 224</u>             | <u>19 231 676</u>   | <u>7 171 594</u>    |
| <b>EQUITY</b>                                                                   |                     |                                   |                           |                     |                     |
| Net assets invested in fixed assets                                             | 1 109 040           |                                   |                           | 1 109 040           | 1 325 140           |
| Net appropriated assets of internal<br>origin                                   | <u>7 569 588</u>    | <u>500 000</u>                    | <u>300 000</u>            | <u>8 369 588</u>    | <u>6 557 732</u>    |
|                                                                                 | <u>8 678 628</u>    | <u>500 000</u>                    | <u>300 000</u>            | <u>9 478 628</u>    | <u>7 882 872</u>    |
|                                                                                 | <u>\$27 876 486</u> | <u>\$520 594</u>                  | <u>\$313 224</u>          | <u>\$28 710 304</u> | <u>\$15 054 466</u> |

On behalf of the Commission des services juridiques,  
Pierre Bélanger, Administrator  
Hélène Leduc, Administrator

**COMMISSION DES SERVICES JURIDIQUES****GENERAL FUND****CONSOLIDATED CASH FLOWS**  
for the year ended March 31, 2005

|                                                                    | <u>2005</u>                | <u>2004</u>                |
|--------------------------------------------------------------------|----------------------------|----------------------------|
| <b>OPERATING ACTIVITIES</b>                                        |                            |                            |
| Excess (insufficient) revenue over expenditure                     |                            |                            |
| Operations                                                         | \$(121 232)                | \$1 090 760                |
| Private practice                                                   | <u>1 716 988</u>           | <u>850 151</u>             |
|                                                                    | 1 595 756                  | 1 940 911                  |
| Depreciation of fixed assets                                       | 847 003                    | 909 225                    |
| Amortization of deferred special grants<br>related to fixed assets | (81 738)                   | (2 907)                    |
| Change in non-cash working capital<br>items (Note 9)               |                            |                            |
| Operations                                                         | (275 923)                  | 533 604                    |
| Private practice                                                   | <u>347 353</u>             | <u>106 613</u>             |
| Cash flows related to operations                                   | <u>2 432 451</u>           | <u>3 487 446</u>           |
| <b>FINANCING ACTIVITIES</b>                                        |                            |                            |
| Deferred special grants related to fixed assets                    | 742 994                    | 275 710                    |
| Instalment on obligations under capital lease contracts            | <u>(128 099)</u>           | <u>(207 487)</u>           |
| Cash flows related to financing activities                         | <u>614 895</u>             | <u>68 223</u>              |
| <b>INVESTING ACTIVITIES</b>                                        |                            |                            |
| Amounts paid in trust                                              | 3 042                      | (39 103)                   |
| Acquisition of investments                                         |                            | (238 740)                  |
| Acquisition of fixed assets                                        | (1 164 810)                | (756 098)                  |
| Transfer of fixed assets                                           | <u>750</u>                 | <u></u>                    |
| Cash flows related to investing activities                         | <u>(1 161 018)</u>         | <u>(1 033 941)</u>         |
| <b>NET VARIATION IN LIQUID ASSETS</b>                              | 1 886 328                  | 2 521 728                  |
| <b>CASH ON HAND, BEGINNING ON YEAR</b>                             | <u>10 033 214</u>          | <u>7 511 486</u>           |
| <b>CASH ON HAND, END O YEAR</b>                                    | <u><u>\$11 919 542</u></u> | <u><u>\$10 033 214</u></u> |

Cash excludes amounts held in trust.

## COMMISSION DES SERVICES JURIDIQUES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS as at March 31, 2005

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#### 1. IDENTIFICATION AND ACTIVITY SECTOR

The Commission des services juridiques was established under the Legal Aid Act.

#### 2. MAIN ACCOUNTING POLICIES

The financial statements are prepared according to accounting principles that are generally recognized in Canada, apart from vacation time, receipts from the contributive components from both fee briefs and expenditures related to private practice, given that they are recorded according to the cash method rather than the accrual method.

##### a) Consolidation principles

The consolidated financial statements include the accounts of the Commission des services juridiques and the following centres controlled by the Commission:

- Regional centres:
  - 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.

##### b) Professional Liability Fund

The purpose of this fund is to pay settlements resulting from liability lawsuits involving the network's lawyers and the Commission's commissioners.

##### c) Fire and Theft Fund

The purpose of this fund is to pay costs related to fire or theft in the network's premises.

##### d) Net assets allocated for the general reserve

The general reserve set up by the Commission is used to carry out the Commission's obligations and commitments.

##### e) Accounting estimates

To prepare the financial statement, Commission management must establish estimates and hypotheses, notably concerning the provisions described in Note 17a and the contingencies, which affect the amounts presented as assets and liabilities, the presentation of the contingencies on the date of the financial statements, and the amounts presented as proceeds and charges over the fiscal year. The actual results may differ from these estimates.

##### f) Acknowledgement of proceeds

Regular Commission grants are posted to the results of the fiscal year whose charges they cover.

**COMMISSION DES SERVICES JURIDIQUES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

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**2. MAIN ACCOUNTING POLICIES (cont'd)****f) Acknowledgement of proceeds (cont'd)**

Special grants are posted to proceeds using the deferral method, which involves recording the proceeds in the books as the various charges are posted.

Special grants used to acquire fixed assets are deferred and amortized at the same rate as the said fixed assets.

**g) Private practice (Section 52)**

Professional fees, legal fees and interest paid to private practice (Section 52) are recorded on a cash basis and revenue is recorded according to amounts authorized by the Gouvernement du Québec.

**h) Services for a fee**

Revenue from administrative expenses is recorded on a cash basis. Other contributions from beneficiaries are recorded on a cash basis for files closed during the year.

**i) Bills for expenses and reimbursement of legal aid costs**

Bills for expenses and reimbursement of legal aid costs are recorded on a cash basis.

**j) Investments**

Investments are recorded at acquisition cost.

**k) Fixed assets**

Fixed assets are recorded at cost and amortized using the straight-line method as follows:

|                                          |         |
|------------------------------------------|---------|
| Office furniture and equipment           | 5 years |
| Computer and office automation equipment | 3 years |
| Computer development                     | 5 years |

**l) Salaries**

Employees' salaries are recorded over 26 periods. Vacation time is recorded according to the cash method (Note 17c) except for special projects, which are recorded on an accrual basis when the corresponding appropriations are granted. The retroactivity related to the renegotiation of the collective agreement is posted when the amounts can be reasonably estimated and the corresponding Ministère de la Justice appropriations are granted.

**m) Fund transfers**

Under the resolutions of the Commission, the reserve of the Fire and Theft Fund and the Professional Liability Fund must be \$300 000 and \$500 000 respectively. Any surplus or deficit of revenue over expenditure must be transferred to the General Fund.

**n) Future fringe benefits**

The employees of the Commission and the regional centres 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).



## COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

### 2. MAIN ACCOUNTING POLICIES (cont'd)

#### n) Future fringe benefits (cont'd)

The Gouvernement du Québec is responsible for paying a portion or all of the benefits of these interentreprise retirement plans.

The Commission records the charges related to these retirement plans based on the amount of the contributions payable, which totalled \$2 019 653 for the fiscal year (\$1 742 590 for the previous fiscal year).

### 3. CHANGE IN ACCOUNTING POLICY

During the previous fiscal year, the Commission retroactively used the Québec government's rules governing capitalization of fixed assets and their amortization, and those governing capital lease contracts. In the past, fixed assets and payments under capital lease contracts were posted directly to expenditures. This change in accounting policy resulted in an increase in fixed assets of \$1 978 262 at March 31, 2004; obligations resulting from capital lease contracts of \$380 319; special grants related to fixed assets \$272 803; net assets invested in fixed assets of \$1 325 140; amortization charges of \$909 225 and interest on obligations resulting from capital lease contracts of \$44 217.

### 4. RESTRICTIONS ON CASH USE

Certain community legal centre employees invoked a collective agreement clause enabling them to have amounts deducted at the source for a future paid sabbatical. The amounts deposited in trust for this purpose have been included with cash and total \$526 712 (\$529 754 in 2004).

### 5. OTHER REVENUE

|                                                                                   | 2005               | 2004               |
|-----------------------------------------------------------------------------------|--------------------|--------------------|
| Operations                                                                        |                    |                    |
| Services for a fee <sup>a</sup>                                                   | \$808 477          | \$846 841          |
| Bill for expenses                                                                 | 29 376             | 54 463             |
| Reimbursement of legal aid costs                                                  | 342 143            | 344 777            |
| Interest                                                                          | 256 189            | 320 240            |
| Other                                                                             | 167 350            | 114 412            |
| Net expenditure of the Professional Liability Fund<br>and the Fire and Theft Fund | <u>(40 255)</u>    | <u>(72 839)</u>    |
|                                                                                   | <u>\$1 563 280</u> | <u>\$1 607 894</u> |
| Private practice (Section 52)                                                     |                    |                    |
| Contributions from beneficiaries                                                  | <u>\$619 640</u>   | <u>\$579 389</u>   |

a Effective January 1, 1997, certain beneficiaries are eligible for services under the Legal Aid Act for a fee.

#### Services for a fee

|                                  | 2005             | 2004             |
|----------------------------------|------------------|------------------|
| Contributions from beneficiaries | \$551 693        | \$586 877        |
| Administrative expenses          | 251 759          | 259 467          |
| Interest                         | <u>5 025</u>     | <u>497</u>       |
|                                  | <u>\$808 477</u> | <u>\$846 841</u> |

**COMMISSION DES SERVICES JURIDIQUES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005**6. GENERAL RESERVE**

Excess (insufficient) proceeds over charges for the fiscal year include \$245 842 (\$28 238 in 2004), which represents excess Gouvernement du Québec grants for court fees on invoicing of these fees.

**7. APPLICATION OF THE GENERAL RESERVE**

The charges and amounts invested in fixed assets for the year include the following amounts from the general reserve used via a resolution adopted by management:

|                                               | 2005      | 2004        |
|-----------------------------------------------|-----------|-------------|
| Informatics master plan                       |           |             |
| Data processing equipment and software        | \$231 463 | \$272 943   |
| Professional services                         | 23 569    | 37 183      |
| Other expenditure                             | 12 550    | 7 343       |
| Revision of salaries for past years           | 29 391    | 496 465     |
| Training                                      |           | 778         |
|                                               | <hr/>     | <hr/>       |
| Amounts posted to operating fees for the year | 296 973   | 814 712     |
|                                               |           |             |
| Amounts invested in fixed assets              | 230 110   | 209 239     |
| Instalments on capital lease contracts        |           | 57 574      |
|                                               | <hr/>     | <hr/>       |
|                                               | 527 083   | 1 081 525   |
|                                               |           |             |
| Account payment – private practice            |           | 628 385     |
|                                               | <hr/>     | <hr/>       |
|                                               | \$527 083 | \$1 709 910 |

**8. PRIVATE PRACTICE CHARGES**

This amount includes \$108 394 (\$1 977 481 in 2004) linked to certain court decisions concerning the enforcement and interpretation of the Legal Aid Act and the agreement of private practice rates.

At the request and on behalf of the Ministère de la Justice du Québec, the Commission managed the payment of the invoices generated by these decisions. Additional appropriations were granted to the Commission to do so since this business was considered outside the regular legal aid system.

**9. CASH FLOW INFORMATION**

Changes in working capital elements are as follows:

|                               | 2005           | 2004        |
|-------------------------------|----------------|-------------|
| Operations                    |                |             |
| Accounts receivable           | \$(11 706 951) | \$(19 242)  |
| Prepaid expenses              | (94 867)       | 34 663      |
| Advances on deferred salaries | (7 820)        | 24 851      |
| Accounts payable              | 10 695 893     | 554 690     |
| Deferred salaries             | (101 569)      | (57 392)    |
| Amounts collected in advance  | 939 391        | (3 966)     |
|                               | <hr/>          | <hr/>       |
|                               | \$(275 923)    | \$533 604   |
|                               |                |             |
| Private practice              |                |             |
| Accounts receivable           | \$415 975      | \$(180 406) |
| Accounts payable              | (92 815)       | 241 404     |
| Amounts collected in advance  | 24 193         | 45 615      |
|                               | <hr/>          | <hr/>       |
|                               | \$347 353      | \$106 613   |

Cash flows related to operations include interest paid in the amount of \$36 475 (\$44 217 in 2004).

## COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005**10. ACCOUNTS RECEIVABLE**

|                                            | 2005                | 2004               |
|--------------------------------------------|---------------------|--------------------|
| Accrued interest                           | \$7 441             | \$4 345            |
| Advance to the Professional Liability Fund | 20 594              | 10 158             |
| Advance to the Fire and Theft Fund         | 13 224              | 6 961              |
| Gouvernement du Québec grants              |                     |                    |
| Private practice                           |                     | 415 975            |
| Court fees                                 | 2 195 000           |                    |
| Operations                                 | 9 234 500           |                    |
| Temporary voluntary departure program      |                     | 703 885            |
| Special projects - one-time                | 1 156 353           | 163 252            |
| Other                                      | 30 982              | 45 843             |
|                                            | <u>\$12 658 094</u> | <u>\$1 350 419</u> |

**11. SHORT-TERM INVESTMENTS**

|                                                                                                     | 2005             | 2004             |
|-----------------------------------------------------------------------------------------------------|------------------|------------------|
| Professional Liability Fund                                                                         |                  |                  |
| Deposit certificates with the National Bank of Canada, 2.40% (1.75% in 2004), maturing in May 2005; | <u>\$500 000</u> | <u>\$500 000</u> |
| Fire and Theft Fund                                                                                 |                  |                  |
| Deposit certificates with the National Bank of Canada, 2.40% (1.75% in 2004), maturing in May 2005. | <u>\$300 000</u> | <u>\$300 000</u> |

**12. FIXED ASSETS**

|                                                     | 2005               | 2005                     | 2004               | 2004               |
|-----------------------------------------------------|--------------------|--------------------------|--------------------|--------------------|
|                                                     | Cost               | Accumulated depreciation | Net value          | Net value          |
| Office furniture and equipment                      | \$1 157 184        | \$539 714                | \$617 470          | \$539 776          |
| Computer and office automation equipment            | 3 870 625          | 2 440 657                | 1 429 968          | 1 021 712          |
| Computer development                                | 639 283            | 639 283                  |                    | 5 603              |
|                                                     | <u>5 667 092</u>   | <u>3 619 654</u>         | <u>2 047 438</u>   | <u>1 567 091</u>   |
| Fixed assets acquired under capital lease contracts |                    |                          |                    |                    |
| Office furniture and equipment                      | 733 644            | 443 318                  | 290 326            | 375 105            |
| Computer and office automation equipment            | 297 848            | 295 160                  | 2 688              | 36 066             |
|                                                     | <u>1 031 492</u>   | <u>738 478</u>           | <u>293 014</u>     | <u>411 171</u>     |
|                                                     | <u>\$6 698 584</u> | <u>\$4 358 132</u>       | <u>\$2 340 452</u> | <u>\$1 978 262</u> |

**COMMISSION DES SERVICES JURIDIQUES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**13. ACCOUNTS PAYABLE**

|                                       | 2005                | 2004               |
|---------------------------------------|---------------------|--------------------|
| Accounts payable and accruals         | \$1 714 301         | \$1 263 472        |
| Temporary voluntary departure program |                     | 1 119              |
| Owing to General Fund, interest-free  | 33 818              | 17 119             |
| Salaries and source deductions        | 11 652 000          | 1 281 028          |
| Court costs                           |                     |                    |
| Operations                            | 1 043 660           | 1 168 449          |
| Private practice                      | 905 498             | 998 313            |
|                                       | <u>\$15 349 277</u> | <u>\$4 729 500</u> |

**14. AMOUNTS COLLECTED IN ADVANCE**

|                                           | 2005               | 2004               |
|-------------------------------------------|--------------------|--------------------|
| Gouvernement du Québec grants – Operating | \$961 559          |                    |
| Services for a fee – permanence           | 622 318            | \$644 486          |
| Services for a fee – private practice     | 940 035            | 915 842            |
|                                           | <u>\$2 523 912</u> | <u>\$1 560 328</u> |

**15. GRANTS FOR SPECIAL PROJECTS**

The Commission received one-time subsidies to carry out special projects.

The amounts received were used as follows:

|                                                                      | 2005               | 2004             |
|----------------------------------------------------------------------|--------------------|------------------|
| Amounts granted at beginning                                         | \$163 252          |                  |
| Amounts used to finance fees related to special projects in the year | 3 930 307          | \$593 690        |
| Amounts used to acquire fixed assets                                 | 742 994            | 275 710          |
| Amounts received                                                     | (3 680 200)        | (706 148)        |
| Amounts granted at end                                               | <u>\$1 156 353</u> | <u>\$163 252</u> |

Special projects related to fixed assets

|                                                              | 2005             | 2004             |
|--------------------------------------------------------------|------------------|------------------|
| Deferred special grants related to fixed assets at beginning | \$272 803        |                  |
| Special grants used to acquire fixed assets                  | 742 994          | \$275 710        |
| Amortization posted to proceeds for the year                 | (81 738)         | (2 907)          |
|                                                              | <u>\$934 059</u> | <u>\$272 803</u> |

**COMMISSION DES SERVICES JURIDIQUES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**16. COMMITMENTS UNDER CAPITAL LEASES**

|                                  | 2005             | 2004             |
|----------------------------------|------------------|------------------|
| Commitments under capital leases |                  |                  |
| maturing in 2010                 | \$297 353        | \$380 319        |
| Current portion                  | 140 877          | 126 623          |
|                                  | <u>\$156 476</u> | <u>\$253 696</u> |

Amounts payable and balance of obligations are as follows:

|                                                                       | 2005             |
|-----------------------------------------------------------------------|------------------|
| 2006                                                                  | \$166 179        |
| 2007                                                                  | 95 126           |
| 2008                                                                  | 45 484           |
| 2009                                                                  | 27 086           |
| 2010                                                                  | 7 296            |
|                                                                       | <u>341 171</u>   |
| Amount representing interest at rates varying from<br>2.84% to 17.53% | <u>43 818</u>    |
| Balance of obligations                                                | <u>\$297 353</u> |

**17. COMMITMENTS****a) Professional fees, legal fees and interest paid to private practice (Section 52)**

As at March 31, 2005, mandates referred to professionals in private practice but unpaid or invoiced by the latter, are estimated to amount to approximately \$49 700 000 (2004: \$49 000 000) and break down as follows:

## COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**17. COMMITMENTS (cont'd)****a) Professional fees, legal fees and interest paid to private practice (Section 52) (cont'd)**

|                                                                         | Civil               | Criminal            | Notarial         | Total               |
|-------------------------------------------------------------------------|---------------------|---------------------|------------------|---------------------|
| Mandates issued under the old Legal Aid Act<br>as at September 26, 1996 |                     |                     |                  |                     |
| 1973-1997                                                               | \$250 000           | \$100 000           |                  | \$350 000           |
| Mandates issued since September 26, 1996<br>under the new Legal Aid Act |                     |                     |                  |                     |
| Free services                                                           |                     |                     |                  |                     |
| 1996-2001                                                               | 1 090 000           | 890 000             |                  | 1 980 000           |
| 2001-2002                                                               | 1 260 000           | 1 110 000           | \$5 000          | 2 375 000           |
| 2002-2003                                                               | 2 220 000           | 1 890 000           | 10 000           | 4 120 000           |
| 2003-2004                                                               | 5 520 000           | 4 860 000           | 25 000           | 10 405 000          |
| 2004-2005                                                               | 15 900 000          | 12 670 000          | 90 000           | 28 660 000          |
|                                                                         | <u>25 990 000</u>   | <u>21 420 000</u>   | <u>130 000</u>   | <u>47 540 000</u>   |
| Service for a fee                                                       |                     |                     |                  |                     |
| 1996-2001                                                               | 40 000              | 40 000              |                  | 80 000              |
| 2001-2002                                                               | 40 000              | 40 000              |                  | 80 000              |
| 2002-2003                                                               | 80 000              | 60 000              |                  | 140 000             |
| 2003-2004                                                               | 230 000             | 140 000             |                  | 370 000             |
| 2004-2005                                                               | 900 000             | 230 000             | 10 000           | 1 140 000           |
|                                                                         | <u>1 290 000</u>    | <u>510 000</u>      | <u>10 000</u>    | <u>1 810 000</u>    |
| Total commitments                                                       | <u>\$27 530 000</u> | <u>\$22 030 000</u> | <u>\$140 000</u> | <u>\$49 700 000</u> |

Since required contributions cannot exceed the actual cost of cases, it is impossible to assess the attendant revenue. This revenue will be recorded as revenue when the claim form is paid.

The estimated costs for mandates referred to private practice were determined by the Commission des services juridiques.

Under total commitments, management estimates that the value of services rendered at fiscal year-end breaks down as follows:

|                                                  | 2005                | 2004                |
|--------------------------------------------------|---------------------|---------------------|
| Services invoiced prior to March 31 but not paid | \$3 753 366         | \$1 467 656         |
| Services rendered but not invoiced at March 31   | <u>31 378 000</u>   | <u>33 700 000</u>   |
| Total accounts payable and accrued liabilities   | <u>\$35 131 366</u> | <u>\$35 167 656</u> |

**b) Lease**

The Commission and the community legal centres are committed to leases for office space and equipment which call for lease payments of \$20 922 161. The minimum lease payments for the next five fiscal are as follows:

## COMMISSION DES SERVICES JURIDIQUES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

### 17. COMMITMENTS (cont'd)

#### b) Lease (cont'd)

|      |             |
|------|-------------|
| 2006 | \$5 291 762 |
| 2007 | 4 793 549   |
| 2008 | 4 281 582   |
| 2009 | 2 828 768   |
| 2010 | 1 720 152   |

#### c) Accumulated vacation time

The value of vacation time at March 31, 2005 is estimated at \$6 278 927 (\$6 010 820 in 2004).

### 18. CONTINGENCIES

- a) Proceedings have been instituted against some community legal centres and the Commission. Should the Commission be called upon to settle claims for amounts that are presently impossible to assess, the resulting loss would be recorded as period costs. This amount pertains to professional lawsuits for which a professional liability fund has been provided for in the financial statements.
- b) When the fiscal year was closing, talks were under way regarding renewal of two collective agreements that ended on June 30, 2003 and the wage equity file. At present, it is impossible to determine the amount to be paid retroactively. Charges related to these elements will be charged when known.

Management believe that these charges will be financed from additional government grants.

### 19. RELATED PARTY TRANSACTIONS

During the fiscal year, the Commission carried out the following operations with companies controlled by the Gouvernement du Québec. It paid rent of \$4 993 074 (\$4 859 935 in 2004) to the Société immobilière du Québec and court costs to the Minister of Finances du Québec for \$1 723 836 (\$1 921 835 in 2004), \$6 792 (\$6 270 in 2004) to the register fund, \$39 767 (\$37 760 in 2004) to the property information fund and \$178 763 (\$200 897 in 2004) to the director of civil status. A balance of \$1 949 158 (\$2 166 762 in 2004) for court fees was payable at March 31 and is disclosed in Note 13.

### 20. FINANCIAL INSTRUMENTS

The fair value of cash, receivables, advances on deferred salaries, short-term investments and payables is comparable to their fair value, given that they mature in the near future.

The fair value of the obligations resulting from capital lease contracts cannot be estimated reliably enough since the market has no pre-determined rate for this type of contract.

**COMMISSION DES SERVICES JURIDIQUES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**21. COMPARATIVE FIGURES**

For comparison purposes, the figures for this fiscal year were reclassified.

**22. RESULTS AND NET ASSETS ALLOCATED TO THE PRO FORMA GENERAL RESERVE**

As mentioned in Note 2, for many years, the Commission has used the cash basis to record private practice honoraria and expenditures, staff vacation time and bonuses and certain receipts.

To record expenditures related to private practice, the Commission des services juridiques has used the cash method for almost 25 years with the knowledge of the Conseil du trésor, the Ministère de la Justice and the Contrôleur des finances, as it has always declared in its annually audited financial statements.

Throughout these years, the Commission des services juridiques never defaulted on its obligations. The reserve formulated in the auditor's report, comes from the change in accounting policies and Chapter 5600 of the CICA handbook, which has been in effect since October 2003.

If the Commission had recorded vacation time, bonuses and private practice honoraria and expenditures on an accrual basis, the effect on the general reserve would have been as follows:

**General reserve**

|                                                                            | 2005                         | 2004                         |
|----------------------------------------------------------------------------|------------------------------|------------------------------|
| Opening balance                                                            |                              |                              |
| Previously established                                                     | \$5 757 732                  | \$3 837 118                  |
| Adjustment to past years                                                   |                              |                              |
| Vacation time and bonuses payable                                          | (6 245 820)                  | (6 292 873)                  |
| Private practice honoraria and expenditures accrued                        | <u>(35 167 656)</u>          | <u>(34 032 968)</u>          |
| Adjusted opening balance (deficit)                                         | (35 655 744)                 | (36 488 723)                 |
| Excess revenue over expenditure for the year                               |                              |                              |
| Operations                                                                 | 610 926                      | 2 044 131                    |
| Private practice                                                           | 1 753 278                    | (284 537)                    |
| Investment in fixed assets                                                 | (421 066)                    | (480 388)                    |
| Instalments on capital lease contracts                                     | (128 099)                    | (207 487)                    |
| Instalments to the Professional Liability Fund and the Fire and Theft Fund |                              | <u>(238 740)</u>             |
| Closing balance (deficit)                                                  | <u><u>\$(33 840 705)</u></u> | <u><u>\$(35 655 744)</u></u> |

The charges affected by this change in accounting policy would be established as follows for the years in question.

|                              | 2005         | 2004         |
|------------------------------|--------------|--------------|
| Operations                   |              |              |
| Salaries and fringe benefits | \$65 607 292 | \$56 532 299 |
| Private practice             | 46 566 660   | 50 917 635   |



## COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED ADDITIONAL INFORMATION  
for the year ended March 31, 2005**EXPENDITURE**

|                                                                   | 2005                | 2004                |
|-------------------------------------------------------------------|---------------------|---------------------|
| <b>OPERATIONS</b>                                                 |                     |                     |
| Administration                                                    |                     |                     |
| Office furniture and equipment                                    | \$500 806           | \$418 648           |
| Other administrative expenses                                     | 281 139             | 319 331             |
| Library                                                           | 435 652             | 408 644             |
| Professional assessments                                          | 436 000             | 395 888             |
| Professional training                                             | 332 468             | 285 961             |
| Electricity                                                       | 3 383               | 3 596               |
| Maintenance and repairs                                           | 371 959             | 342 077             |
| Office supplies                                                   | 557 281             | 579 555             |
| Travelling expenses                                               | 963 721             | 923 849             |
| Postage                                                           | 336 795             | 336 467             |
| Information                                                       | 15 338              | 15 129              |
| Rent, taxes and permits                                           | 5 924 054           | 5 880 694           |
| Directors' meeting                                                | 100 056             | 96 315              |
| Professional services                                             | 651 636             | 719 045             |
| Telecommunications                                                | 701 866             | 679 712             |
| Depreciation of fixed assets                                      | 765 265             | 906 318             |
| Interest on obligations resulting from<br>capital lease contracts | 36 475              | 44 217              |
|                                                                   | <u>12 413 894</u>   | <u>12 355 446</u>   |
| Salaries and fringe benefits                                      |                     |                     |
| Attorneys                                                         | 45 302 721          | 36 130 524          |
| Other                                                             | 20 271 464          | 20 448 828          |
|                                                                   | <u>65 574 185</u>   | <u>56 579 352</u>   |
| Judicial fees                                                     |                     |                     |
| Free services                                                     |                     |                     |
| Civil                                                             | 3 145 666           | 3 288 800           |
| Criminal                                                          | 364 266             | 328 533             |
|                                                                   | <u>3 509 932</u>    | <u>3 617 333</u>    |
| Services for a fee                                                |                     |                     |
| Civil                                                             | 84 109              | 79 637              |
| Criminal                                                          | 28 194              | 19 953              |
|                                                                   | <u>112 303</u>      | <u>99 590</u>       |
|                                                                   | <u>3 622 235</u>    | <u>3 716 923</u>    |
| Amounts carried forward                                           | <u>\$81 610 314</u> | <u>\$72 651 721</u> |

**COMMISSION DES SERVICES JURIDIQUES**CONSOLIDATED ADDITIONAL INFORMATION (cont'd)  
for the year ended March 31, 2005**EXPENDITURE** (cont'd)

|                                      | 2005                 | 2004                 |
|--------------------------------------|----------------------|----------------------|
| Amounts brought forward              | <u>\$81 610 314</u>  | <u>\$72 651 721</u>  |
| <b>PRIVATE PRACTICE (Section 52)</b> |                      |                      |
| Free services                        |                      |                      |
| Professional fees                    |                      |                      |
| Civil                                | 20 245 996           | 21 325 444           |
| Criminal                             | 17 949 509           | 19 645 102           |
| Notarial                             | <u>161 985</u>       | <u>38 089</u>        |
|                                      | 38 357 490           | 41 008 635           |
| Legal fees <sup>1</sup>              |                      |                      |
| Civil                                | 4 887 128            | 5 383 925            |
| Criminal                             | 1 360 987            | 1 302 154            |
| Notarial                             | <u>47 076</u>        | <u>37 602</u>        |
|                                      | 6 295 191            | 6 723 681            |
| Other expenses                       | 60 333               | 108 450              |
| Interest                             | <u>3 389</u>         | <u>25 407</u>        |
|                                      | 63 722               | 133 857              |
|                                      | <u>44 716 403</u>    | <u>47 866 173</u>    |
| Services for a fee                   |                      |                      |
| Professional fees                    |                      |                      |
| Civil                                | 1 247 602            | 1 177 705            |
| Criminal                             | 286 862              | 408 426              |
| Notarial                             | <u>9 468</u>         | <u>3 545</u>         |
|                                      | 1 543 932            | 1 589 676            |
| Legal fees <sup>2</sup>              |                      |                      |
| Civil                                | 299 439              | 286 789              |
| Criminal                             | 42 814               | 40 049               |
| Notarial                             | <u>362</u>           | <u>260</u>           |
|                                      | 342 615              | 327 098              |
|                                      | <u>1 886 547</u>     | <u>1 916 774</u>     |
|                                      | <u>46 602 950</u>    | <u>49 782 947</u>    |
|                                      | <u>\$128 213 264</u> | <u>\$122 434 668</u> |

1 Includes legal fees in the amount of \$4 901 399 (2004: \$5 216 426) and other fees in the amount of \$1 393 792 (2004: \$1 507 255).

2 Includes legal fees in the amount of \$280 250 (2004: \$276 008) and other fees in the amount of \$62 365 (2004: \$51 090).

## COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED ADDITIONAL INFORMATION (cont'd)  
for the year ended March 31, 2005

## CONSOLIDATED RESULTS – SPECIAL PROJECTS

|                                                             | 2005             | 2004           |
|-------------------------------------------------------------|------------------|----------------|
| <b>REVENUE</b> (Note 15)                                    |                  |                |
| Special grants – charges                                    | \$3 930 307      | \$593 690      |
| Amortization of deferred special grants for<br>fixed assets | 81 738           | 2 907          |
|                                                             | <u>4 012 045</u> | <u>596 597</u> |
| <b>EXPENDITURE</b>                                          |                  |                |
| Administration                                              |                  |                |
| Office furniture and equipment                              | 219 154          | 93 514         |
| Other administrative expenses                               | 21 396           | 5 972          |
| Library                                                     | 16 421           | 6 377          |
| Professional assessments                                    | 36 956           | 4 324          |
| Professional training                                       | 33 969           | 60             |
| Maintenance and repairs                                     | 32 555           | 17 603         |
| Office supplies                                             | 44 079           | 22 308         |
| Travelling expenses                                         | 89 569           | 5 460          |
| Postage                                                     | 10 599           | 986            |
| Rent, taxes and permits                                     | 134 723          | 11 216         |
| Professional services                                       | 11 219           | 3 084          |
| Telecommunications                                          | 51 990           | 24 824         |
| Depreciation of fixed assets                                | 81 738           | 2 907          |
| Information                                                 | 3 983            |                |
| Self-generated revenue                                      | (568)            |                |
|                                                             | <u>787 783</u>   | <u>198 635</u> |
| Salaries and fringe benefits                                |                  |                |
| Attorneys                                                   | 2 431 444        | 347 387        |
| Other                                                       | 776 077          | 50 575         |
|                                                             | <u>3 207 521</u> | <u>397 962</u> |
| Legal disbursements                                         |                  |                |
| Free services                                               |                  |                |
| Civil                                                       | 3 585            |                |
| Criminal                                                    | 13 156           |                |
|                                                             | <u>16 741</u>    |                |
|                                                             | <u>4 012 045</u> | <u>596 597</u> |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                      |                  |                |

**COMMISSION DES SERVICES JURIDIQUES****AUDITORS' REPORT**

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To the members of the  
Commission des services juridiques

We have audited the consolidated balance sheet of the Commission des services juridiques as at March 31, 2005 and the consolidated statements of results, change in net assets and cash flow of the General Fund, and the statement of changes in the balance of the Professional Liability Fund and the Fire and Theft Fund for the year then ended. These financial statements are the responsibility of Commission management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

Vacation time, bonuses, receipts from contributions and bills of fees and expenditures related to private practice are recorded on a cash basis rather than an accrual basis. The Commission des services juridiques has recorded its expenditures related to private practice this way for almost 25 years, as it has always declared in its financial statements (see Note 2 g).

In this respect, the financial statements do not comply with the accounting principles generally recognized in Canada. If the cash basis had been used to record vacation time and private practice honoraria and expenditures, excess proceeds over operating costs for the fiscal year would have been \$33 107 lower (\$47 053 higher in 2004), excess proceeds over expenditures for private practice would have been \$36 290 higher (\$1 134 688 lower in 2004), the closing balance of the general reserve would have been \$41 410 293 lower (\$41 413 476 in 2004), and accounts payable and accrued liabilities would have been higher by the amount disclosed in Note 22. Recording receipts from contributions and bills of fees on an accrual basis rather than a cash basis would not have a significant impact on the organization's operating results or financial position.

In our opinion, with the exception of the effects of not recording vacation time and honoraria related to private practice on an accrual basis as disclosed in the previous paragraph, these consolidated financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with the auditing standards that are generally accepted in Canada.

Harel Drouin – PKF, S.E.N.C.R.L.  
Chartered Accountants

Montréal, May 27, 2005

**CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**  
(R.S.Q., c. C-57.02)

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                                | <u>2005</u>       | <u>2004</u>       |
|----------------------------------------------------------------|-------------------|-------------------|
| <b>REVENUE</b>                                                 |                   |                   |
| Gouvernement du Québec subsidies                               |                   |                   |
| Financial assistance                                           | \$68 082 006      | \$66 694 630      |
| Administration fees                                            | <u>5 522 713</u>  | <u>5 564 449</u>  |
|                                                                | 73 604 719        | 72 259 079        |
| Interest on short-term investments                             | <u>501 438</u>    | <u>600 312</u>    |
|                                                                | <u>74 106 157</u> | <u>72 859 391</u> |
| <b>EXPENDITURE</b>                                             |                   |                   |
| Financial assistance granted                                   |                   |                   |
| Theatre                                                        | 21 538 033        | 21 132 454        |
| Circus arts                                                    | 723 485           | 636 127           |
| Music                                                          | 20 554 240        | 19 536 775        |
| Visual and media arts                                          | 11 801 638        | 11 549 693        |
| Dance                                                          | 8 911 979         | 9 122 221         |
| Literature                                                     | 3 119 303         | 3 205 383         |
| Multidisciplinary arts                                         | 1 251 815         | 1 360 656         |
| Other activities                                               | <u>297 290</u>    | <u>264 000</u>    |
|                                                                | 68 197 783        | 66 807 309        |
| Cancellation of financial assistance granted in previous years | <u>(199 941)</u>  | <u>(195 530)</u>  |
|                                                                | 67 997 842        | 66 611 779        |
| Interest on long-term debt                                     | 75 868            | 100 771           |
| Administrative expenses (Note 3)                               | <u>5 998 627</u>  | <u>6 120 651</u>  |
|                                                                | <u>74 072 337</u> | <u>72 833 201</u> |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                         | <u>\$33 820</u>   | <u>\$26 190</u>   |

The notes are an integral part of these financial statements.

SURPLUS  
for the year ended March 31, 2005

|                                   | <u>2005</u>     | <u>2004</u>     |
|-----------------------------------|-----------------|-----------------|
| <b>SURPLUS, BEGINNING OF YEAR</b> | \$61 757        | \$35 567        |
| Excess revenue over expenditure   | <u>33 820</u>   | <u>26 190</u>   |
| <b>SURPLUS, END OF YEAR</b>       | <u>\$95 577</u> | <u>\$61 757</u> |

The notes are an integral part of these financial statements.

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                            | 2005                      | 2004                      |
|------------------------------------------------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                                              |                           |                           |
| <b>Current assets</b>                                      |                           |                           |
| Cash on hand                                               | \$708 349                 | \$455 306                 |
| Short-term investments at 2.56%                            | 2 993 910                 | 3 243 920                 |
| Accounts receivable                                        | 16 460                    | 10 172                    |
| Gouvernement du Québec subsidies receivable                | 1 633 519                 | 1 298 125                 |
| Prepaid expenses                                           | 64 731                    | 29 344                    |
|                                                            | <u>5 416 969</u>          | <u>5 036 867</u>          |
| <b>Gouvernement du Québec subsidies receivable</b>         | 800 000                   | 1 200 000                 |
| <b>Fixed assets</b> (Note 4)                               | 165 539                   | 227 184                   |
| <b>Intangible assets</b> (Note 5)                          | <u>88 022</u>             | <u>94 115</u>             |
|                                                            | <u><u>\$6 470 530</u></u> | <u><u>\$6 558 166</u></u> |
| <b>LIABILITIES</b>                                         |                           |                           |
| <b>Current liabilities</b>                                 |                           |                           |
| Accounts payable and accruals                              | \$313 700                 | \$216 949                 |
| Financial assistance payable                               | 3 522 125                 | 3 074 864                 |
| Deferred subsidies                                         | 316 587                   | 350 000                   |
| Portion of long-term debt maturing in the short term       | <u>465 508</u>            | <u>461 287</u>            |
|                                                            | <u>4 617 920</u>          | <u>4 103 100</u>          |
| <b>Long-term debt</b> (Note 7)                             | 828 610                   | 1 294 118                 |
| <b>Provision for sick leave and vacation time</b> (Note 8) | <u>928 423</u>            | <u>1 099 191</u>          |
|                                                            | <u>6 374 953</u>          | <u>6 496 409</u>          |
| <b>SURPLUS</b>                                             | <u>95 577</u>             | <u>61 757</u>             |
|                                                            | <u><u>\$6 470 530</u></u> | <u><u>\$6 558 166</u></u> |

TRUST FUNDS (Note 10)

COMMITMENTS (Note 13)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Suzanne Masson  
Yvan Gauthier

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

CASH FLOWS  
for the year ended March 31, 2005

|                                                             | <u>2005</u>               | <u>2004</u>               |
|-------------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                 |                           |                           |
| Receipts – government subsidies                             | \$73 635 913              | \$72 299 718              |
| Receipts – interest received                                | 499 722                   | 604 593                   |
| Disbursements – financial assistance granted                | (67 550 581)              | (66 880 141)              |
| Disbursements – suppliers and staff members                 | (5 934 796)               | (6 042 111)               |
| Disbursements – interest paid                               | <u>(86 997)</u>           | <u>(111 879)</u>          |
| Net receipts (disbursements) for operating activities       | <u>563 261</u>            | <u>(129 820)</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                |                           |                           |
| Disbursements for investment activities:                    |                           |                           |
| Acquisition of fixed assets                                 | <u>(98 941)</u>           | <u>(84 564)</u>           |
| <b>FINANCING ACTIVITIES</b>                                 |                           |                           |
| Disbursements for financing activities:                     |                           |                           |
| Repayment of long-term debt                                 | <u>(461 287)</u>          | <u>(457 336)</u>          |
| <b>INCREASE (DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b> | <b>3 033</b>              | <b>(671 720)</b>          |
| <b>CASH AND CASH EQUIVALENTS<br/>– BEGINNING OF YEAR</b>    | <u>3 699 226</u>          | <u>4 370 946</u>          |
| <b>CASH AND CASH EQUIVALENTS<br/>– END OF YEAR (Note 9)</b> | <u><u>\$3 702 259</u></u> | <u><u>\$3 699 226</u></u> |

The notes are an integral part of these financial statements.

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 1. CONSTITUTION AND PURPOSE

The Conseil is a corporation established under the Act respecting the Conseil des arts et des lettres du Québec (R.S.Q., c. C-57.02). It is competent 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 goal of the Conseil is to support creation, experimentation and production in all regions of 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. A further goal of the Conseil 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 Conseil is not subject to income tax.

The Conseil administers the following trust funds: "Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent", "Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie", "Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine", "Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière".

#### 2. ACCOUNTING POLICIES

The financial statements of the Conseil were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

The Conseil's accounts do not include those of the trust funds.

The Conseil applies the deferral method to record contributions.

##### Cash and cash equivalents

The Conseil's policy consists in presenting under cash and cash equivalents bank balances and investments that are convertible in the short term into a known amount of cash whose value is unlikely to change significantly.

##### Short-term investment

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

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Conseil lacks sufficient information to apply the accounting procedure for defined-benefit plans.

##### Fixed assets

Fixed assets are recorded at cost and amortized using the straight-line method over the estimated service life, namely:

|                                     |               |
|-------------------------------------|---------------|
| Furniture and audiovisual equipment | 5 years       |
| Computer equipment and development  | 3 years       |
| Leasehold improvements              | Term of lease |

##### Intangible assets

Intangible assets, comprising computer and software development, are recorded at cost and amortized based on the probable length of their use, i.e. 3 years, according to the straight-line method at 33.3%. They undergo a depreciation test when changes in the situation indicate that their book value may not be recovered.

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



## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 2. ACCOUNTING POLICIES (cont'd)

#### Financial assistance granted

The financial assistance granted is recorded when authorized and when the beneficiary meets the eligibility criteria.

#### Recording Gouvernement du Québec subsidies

The 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 Conseil obtained the funding or carried out the work entitling it to these subsidies.

### 3. ADMINISTRATIVE EXPENSES

|                                                  | 2005               | 2004               |
|--------------------------------------------------|--------------------|--------------------|
| Salaries and fringe benefits                     | \$4 135 340        | \$4 549 217        |
| Professional, administrative, and other services | 714 974            | 486 382            |
| Transportation and communications                | 378 479            | 297 952            |
| Rent                                             | 508 731            | 515 039            |
| Materials and supplies                           | 82 652             | 73 806             |
| Maintenance and repairs                          | 11 772             | 7 787              |
| Amortization of fixed assets                     | 106 836            | 136 230            |
| Amortization of intangible assets                | 59 843             | 54 238             |
|                                                  | <u>\$5 998 627</u> | <u>\$6 120 651</u> |

### 4. FIXED ASSETS

|                        | 2005             |                          | 2004             |
|------------------------|------------------|--------------------------|------------------|
|                        | Cost             | Accumulated depreciation | Net              |
| Furniture              | \$30 510         | \$20 739                 | \$9 771          |
| Audiovisual equipment  | 14 952           | 2 760                    | 12 192           |
| Computer equipment     | 192 568          | 133 342                  | 59 226           |
| Leasehold improvements | 360 355          | 276 005                  | 84 350           |
|                        | <u>\$598 385</u> | <u>\$432 846</u>         | <u>\$165 539</u> |
|                        |                  |                          | <u>\$227 184</u> |

### 5. INTANGIBLE ASSETS

|                                   | 2005             |                          | 2004            |
|-----------------------------------|------------------|--------------------------|-----------------|
|                                   | Cost             | Accumulated depreciation | Net             |
| Computer and software development | <u>\$267 252</u> | <u>\$179 230</u>         | <u>\$88 022</u> |
|                                   |                  |                          | <u>\$94 115</u> |

### 6. BANK BORROWING

Under borrowing O.C. 697-2004, dated June 30, 2004, the Conseil is authorized to contract short-term borrowings up to a total of \$1 000 000, by June 30, 2007, from financial institutions or the Gouvernement du Québec's Financing Fund.

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**7. LONG-TERM DEBT**

|                                                                                                                                                                                                                                                                                                                                            | 2005                   | 2004                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Borrowing from the Société immobilière du Québec,<br>6.68%, repayable in monthly instalments of<br>\$5 818, maturing in August 2006                                                                                                                                                                                                        | \$94 118               | \$155 405              |
| Borrowing on a note from the Financing Fund of the<br>Gouvernement du Québec, 5.394% repayable in annual instalments<br>of \$400 000 until April 2, 2007 with the first capital and interest<br>payment guaranteed by a moveable hypothec without delivery on<br>the amount of the subsidy foreseen for the repayment of this<br>borrowing | 1 200 000<br>1 294 118 | 1 600 000<br>1 755 405 |
| Less: Payments within one year                                                                                                                                                                                                                                                                                                             | 465 508                | 461 287                |
|                                                                                                                                                                                                                                                                                                                                            | <u>\$828 610</u>       | <u>\$1 294 118</u>     |

The capital payments to be made over the next three fiscal years are as follows:

|      |           |
|------|-----------|
| 2006 | \$465 508 |
| 2007 | 428 610   |
| 2008 | 400 000   |

**8. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Conseil participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Conseil's contributions charged to the year-end statement amount to \$152 272 (2004: \$147 888). The Conseil's liability towards these Government plans is restricted to its contributions as an employer.

**Provision for sick leave and vacation time**

|                               | 2005             |                  |                  | 2004               |
|-------------------------------|------------------|------------------|------------------|--------------------|
|                               | Sick leave       | Vacation time    | Total            | Total              |
| Opening balance               | \$628 040        | \$471 151        | \$1 099 191      | \$1 066 469        |
| Charges for the year          | 165 486          | 350 204          | 515 690          | 491 357            |
| Benefits paid during the year | (283 820)        | (402 638)        | (686 458)        | (458 635)          |
| Closing balance               | <u>\$509 706</u> | <u>\$418 717</u> | <u>\$928 423</u> | <u>\$1 099 191</u> |

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**9. CASH FLOWS**

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

|                        | 2005               | 2004               |
|------------------------|--------------------|--------------------|
| Cash on hand           | \$708 349          | \$455 306          |
| Short-term investments | 2 993 910          | 3 243 920          |
|                        | <u>\$3 702 259</u> | <u>\$3 699 226</u> |

**10. TRUST FUNDS****Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent**

Under an agreement signed in December 2002, the Conseil régional de concertation et de développement du Bas-Saint-Laurent and the Conseil régional de la Culture du Bas-Saint-Laurent (CRC) committed to paying \$165 000 in payments that can reach to \$50 000, \$55 000 and \$60 000 spread over the fiscal years ended March 31, 2003, 2004 and 2005 respectively into a trust fund in the context of the regional development fund. Last year, at an annual general meeting, it was resolved that the Conseil régional de concertation du Bas-Saint-Laurent would transfer all of its property and assets, rights and obligations to the Conférence régionale des élus du Bas Saint-Laurent.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Bas-Saint-Laurent according to the terms, conditions and procedures in effect. The agreement ended on March 31, 2005. In the coming year, the Conseil and the Conférence régionale des élus du Bas-Saint-Laurent will complete the administrative work needed to renew the agreement. The Conseil and the Conférence régionale des élus du Bas-Saint-Laurent will agree on the use of the amounts available as well as the interest generated by the Fund.

**Balance Sheet**

as at March 31, 2005

|                              | 2005            | 2004         |
|------------------------------|-----------------|--------------|
| <b>Assets</b>                |                 |              |
| Cash on hand                 | \$2 792         | \$501        |
| Accrued interest             | 83              | 45           |
| Receivable from the Conseil  | 543             |              |
| Contribution receivable      | 10 880          |              |
|                              | <u>\$14 298</u> | <u>\$546</u> |
| <b>Liabilities</b>           |                 |              |
| Financial assistance payable | \$13 634        |              |
| Fund balance                 | 664             | \$546        |
|                              | <u>\$14 298</u> | <u>\$546</u> |

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent (cont'd)****Changes in Fund balance**

for the year ended March 31, 2005

|                       | 2005   | 2004   |
|-----------------------|--------|--------|
| Opening Fund balance  | \$546  | \$54   |
| Increase              |        |        |
| Contributions         | 60 880 | 54 120 |
| Interest              | 118    | 492    |
|                       | 61 544 | 54 666 |
| Decrease              |        |        |
| Contributions granted | 60 880 | 54 120 |
| Closing Fund balance  | \$664  | \$546  |

**Trust Fund – Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie**

Under an agreement signed in December 2001, the Conseil régional de développement de la Mauricie committed to paying \$150 000 in payments spread equally over the fiscal years ended March 31, 2002, 2003 and 2004 into a trust fund in the context of the regional development fund.

The Conseil serves as fund trustee. The agreement ended on March 31, 2004 and \$2 200 representing the balance of unused contributions was remitted to the Conseil régional de développement de la Mauricie.

Under an agreement signed on November 2, 2004 by the Conseil and the Conférence régionale des élus de la Mauricie and new provisions regarding the payment of financial assistance the Conférence, in the coming year, the Conseil will close the Trust Fund. The Conseil and the Conférence régionale des élus de la Mauricie will agree on how to use the amounts available and the interest generated by the Fund.

**Balance Sheet**

as at March 31, 2005

|                              | 2005  | 2004  |
|------------------------------|-------|-------|
| Assets                       |       |       |
| Cash on hand                 | \$486 | \$476 |
| Accrued interest             | 1     | 1     |
|                              | \$487 | \$477 |
| Liabilities                  |       |       |
| Financial assistance payable | \$487 | \$477 |
| Fund balance                 | \$487 | \$477 |

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie (cont'd)****Changes in Fund balance**

for the year ended March 31, 2005

|                                                                  | 2005  | 2004   |
|------------------------------------------------------------------|-------|--------|
| Opening Fund balance                                             | \$477 | \$263  |
| Increase                                                         |       |        |
| Contributions                                                    |       | 50 000 |
| Interest                                                         | 10    | 214    |
|                                                                  | 487   | 50 477 |
| Decrease                                                         |       |        |
| Contributions granted                                            |       | 47 800 |
| Given to the Conseil régional de développement<br>de la Mauricie |       | 2 200  |
| Closing Fund balance                                             | \$487 | \$477  |

**Trust Fund – Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine**

Under an agreement signed in March 2003, the Conseil régional de concertation et de développement de la Gaspésie – Îles de la Madeleine committed to paying \$150 000 in payments of \$100 000 and \$50 000 spread over the fiscal years ended March 31, 2004 and 2005 into a trust fund in the context of the regional development fund. Last year, at the annual general meeting, it was resolved that the Conseil régional de concertation et de développement de la Gaspésie – Îles-de-la-Madeleine would transfer all of its property and assets, rights and obligations to the Conférence régionale des élus de la Gaspésie – Îles-de-la-Madeleine. Further, under the agreement's new provisions, during the year, the Conférence paid financial assistance directly to professional artists.

The Conseil serves as fund trustee.

The Conseil pays the amounts to artistic organizations, professional artists and artists' associations in Gaspésie – Îles de la Madeleine according to the terms, conditions and procedures in effect. The agreement ended on March 31, 2005 and is in the process of being renewed for a period that remains to be determined. Given the new provisions governing the payment of financial assistance, in the coming year, the Conseil will close the Trust Fund. The Conseil et la Conférence régionale des élus de la Gaspésie – Îles de la Madeleine will agree on how to use the amounts available and the interest generated by the Fund.

**Balance Sheet**

as at March 31, 2005

|                  | 2005  | 2004     |
|------------------|-------|----------|
| Assets           |       |          |
| Cash on hand     | \$239 | \$62 631 |
| Accrued interest | 1     | 30       |
|                  | \$240 | \$62 661 |

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine (suite)**

|                              | 2005         | 2004            |
|------------------------------|--------------|-----------------|
| Liabilities                  |              |                 |
| Financial assistance payable |              | \$62 500        |
| Fund balance                 | \$240        | 161             |
|                              | <u>\$240</u> | <u>\$62 661</u> |

**Changes in Fund balance**  
for the year ended March 31, 2005

|                       | 2005         | 2004           |
|-----------------------|--------------|----------------|
| Opening Fund balance  | \$161        |                |
| Increase              |              |                |
| Contribution          |              | \$100 000      |
| Interest              | 178          | 161            |
|                       | <u>339</u>   | <u>100 161</u> |
| Decrease              |              |                |
| Contribution granted  |              | 100 000        |
| Other operating costs | 99           |                |
|                       | <u>99</u>    |                |
| Closing Fund balance  | <u>\$240</u> | <u>\$161</u>   |

**Trust Fund – Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière**

Under an agreement signed in March 2003, the Conseil régional de développement de Lanaudière committed to paying \$150 000 in payments that can reach to \$100 000 and \$50 000 spread over the fiscal years ended March 31, 2004 and 2005 respectively into a trust fund in the context of the regional development fund. On June 15, 2004, during a special general meeting, it was resolved that the Conseil régional de développement de Lanaudière would transfer all of its property and assets, rights and obligations to the Conférence régionale des élus de Lanaudière.

The Conseil serves as fund trustee.

The Conseil pays the amounts to professional artists and artists' associations in Lanaudière according to the terms, conditions and procedures in effect. The agreement ended on March 31, 2005. In the coming year, the Conseil et la Conférence régionale des élus de Lanaudière will complete the administrative work required to renew the agreement, if applicable. The Conseil and the Conférence régionale des élus de la Lanaudière will agree on how to use the amounts available and the interest generated by the Fund.

## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière (cont'd)****Balance Sheet**

as at March 31, 2005

|                              | 2005            | 2004            |
|------------------------------|-----------------|-----------------|
| Assets                       |                 |                 |
| Cash on hand                 | \$27            | \$78            |
| Contribution receivable      | 61 543          | 48 395          |
|                              | <u>\$61 570</u> | <u>\$48 473</u> |
| Liabilities                  |                 |                 |
| Financial assistance payable | \$61 543        | \$48 395        |
| Fund balance                 | 27              | 78              |
|                              | <u>\$61 570</u> | <u>\$48 473</u> |

**Changes in Fund balance**

for the year ended March 31, 2005

|                       | 2005          | 2004          |
|-----------------------|---------------|---------------|
| Opening Fund balance  | \$78          |               |
| Increase              |               |               |
| Contribution          | 61 543        | \$88 457      |
| Interest              | 48            | 77            |
|                       | <u>61 669</u> | <u>88 534</u> |
| Decrease              |               |               |
| Contribution granted  | 61 543        | 88 456        |
| Other operating costs | 99            |               |
|                       | <u>61 642</u> |               |
| Closing Fund balance  | <u>\$27</u>   | <u>\$78</u>   |

**11. FINANCIAL INSTRUMENTS****Fair value**

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

The fair value of the long-term Gouvernement du Québec subsidies receivable and the fair value of the long term debt are determined by capitalizing future cash flows to capitalization rates representing those the Conseil might select the date of the financial statement for borrowing with similar conditions and maturity dates.

**CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. FINANCIAL INSTRUMENTS (cont'd)****Fair value (cont'd)**

The following table shows the book value and the fair value of the financial instruments:

|                                                        | 2005          |               | 2004          |               |
|--------------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                        | Book<br>value | Fair<br>value | Book<br>value | Fair<br>value |
| <b>Financial assets</b>                                |               |               |               |               |
| Gouvernement du Québec subsidies<br>receivable         | \$2 433 519   | \$2 461 690   | \$2 498 125   | \$2 562 347   |
| <b>Financial liabilities</b>                           |               |               |               |               |
| Long-term debt                                         |               |               |               |               |
| Long-term borrowing - Société<br>immobilière du Québec | 94 118        | 95 882        | 155 405       | 159 273       |
| Long-term borrowing – Financing Fund<br>note           | 1 200 000     | 1 261 690     | 1 600 000     | 1 708 528     |

**12. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Conseil 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 Conseil 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.

**13. COMMITMENTS**

The Conseil is committed under a long-term occupancy agreement ending March 31, 2010 to the Société immobilière du Québec for the Québec City office and ending August 31, 2006 for the Montréal office.

Rental costs for the fiscal year ended March 31, 2005 for these offices were \$488 460. Minimum future payments are as follows:

|      |                    |
|------|--------------------|
| 2006 | \$502 499          |
| 2007 | 342 179            |
| 2008 | 223 067            |
| 2009 | 216 572            |
| 2010 | 216 572            |
|      | <u>\$1 500 889</u> |

**14. COMPARATIVES FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.



## CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

### MANAGEMENT'S REPORT

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The financial statements of the Conseil des arts et des lettres du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Conseil 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 audit committee, whose members are not management employees. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Conseil's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Yvan Gauthier  
President and Chief Executive Officer

Québec, June 1, 2005

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### AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the Conseil des arts et des lettres du Québec as at March 31, 2005 and the statements of revenue and expenditure, surplus and cash flow for the year then ended. I have also audited the balance sheets of the "Conférence régionale des élus du Bas-Saint-Laurent – Fonds dédiés aux arts et aux lettres du Bas-Saint-Laurent", "Conférence régionale des élus de la Mauricie – Fonds dédiés aux arts et aux lettres de la Mauricie", "Conférence régionale des élus de la Gaspésie – Îles de la Madeleine – Fonds dédiés aux arts et aux lettres de la Gaspésie – Îles de la Madeleine", "Conférence régionale des élus de Lanaudière – Fonds dédiés aux arts et aux lettres de Lanaudière" trust funds, which are administered by the Conseil, as at March 31, 2005, and the statements of changes in fund balance for the year then ended. The financial statements for these funds are disclosed in Note 10. These financial statements are the responsibility of Conseil management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Conseil's financial position and that of its trust funds as at March 31, 2005 and the results of their operations and cash flows 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 General of Québec

Québec, June 1, 2005

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**  
(R.S.Q., c. C-68.1)

INCOME  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                      | <u>2005</u>    | <u>2004</u>    |
|------------------------------------------------------|----------------|----------------|
| <b>REVENUE</b>                                       |                |                |
| Interest income                                      | 105 325        | 123 269        |
| Financial management fees                            | 291            | 399            |
| Rental income:                                       |                |                |
| Health network (Note 4)                              | 125 529        | 113 769        |
| Other – net (Note 5)                                 | 139            | 1 500          |
| Administrative expenses related to mandated projects | 3 449          | 1 940          |
| Consulting fees                                      | 120            | 1 271          |
| Government of Canada subsidy (Note 6)                | 93             | 440            |
| Gain on disposal of buildings intended for sale      | 484            | 17             |
| Amortization of deferred income                      | 28 153         | 16 136         |
| Revenue from projects under study but withdrawn      | 987            | 551            |
| Other                                                | 29             | 250            |
|                                                      | <u>264 599</u> | <u>259 542</u> |
| <b>EXPENDITURE</b>                                   |                |                |
| Interest– net (Note 7)                               | 181 635        | 185 694        |
| Amortization (Notes 3 and 8)                         | 50 743         | 21 567         |
| Overall and administrative expenditures (Note 9)     | 7 809          | 6 713          |
| Consulting costs                                     | 144            | 1 145          |
| Cost related to projects under study but withdrawn   | 987            | 551            |
| Information system on network buildings              | 1 334          |                |
| Other charges                                        | 283            |                |
| Client rebate (Note 10)                              | 3 539          | 4 637          |
|                                                      | <u>246 474</u> | <u>220 307</u> |
| <b>NET INCOME</b>                                    | <u>18 125</u>  | <u>39 235</u>  |

The notes are an integral part of these financial statements.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

RETAINED EARNINGS  
for the year ended March 31, 2005  
(in thousands of dollars)

|                          | <u>2005</u>           | <u>2004</u>           |
|--------------------------|-----------------------|-----------------------|
| <b>OPENING BALANCE</b>   | 113 398               | 74 163                |
| Net income               | <u>18 125</u>         | <u>39 235</u>         |
| <b>CLOSING BALANCE *</b> | <u><u>131 523</u></u> | <u><u>113 398</u></u> |

The notes are an integral part of these financial statements.

\* The amount freed up by the amortization of deferred contributions whose use must be pre-approved by the shareholders as indicated in Note 21 was \$83.1 M at March 31, 2005 (2004: \$57.6 M).

CONTRIBUTED SURPLUS  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                                                | <u>2005</u>          | <u>2004</u>         |
|------------------------------------------------------------------------------------------------|----------------------|---------------------|
| <b>OPENING BALANCE</b>                                                                         | 7 591                | 2 337               |
| Surplus of fair value over cost of property acquired<br>for a minimal consideration or nothing | <u>4 009</u>         | <u>5 254</u>        |
| <b>CLOSING BALANCE</b>                                                                         | <u><u>11 600</u></u> | <u><u>7 591</u></u> |

The notes are an integral part of these financial statements.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

**BALANCE SHEET**  
as at March 31, 2005  
(in thousands of dollars)

|                                                        | 2005             | 2004             |
|--------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                          |                  |                  |
| Short-term investments (Note 24)                       | 2 486            | 2 488            |
| Accounts receivable (Note 11)                          | 29 347           | 25 527           |
| Gouvernement du Québec subsidies receivable            | 987              |                  |
| Rental payments receivable (Note 12)                   | 11 104           | 12 406           |
| Loans (Note 13)                                        | 1 926 698        | 1 839 122        |
| Claims receivable – mandated projects (Note 14)        | 506 336          | 367 836          |
| Fixed assets (Note 15)                                 | 1 814 190        | 1 747 826        |
| Buildings intended for sale (Note 16)                  | 880              | 441              |
| Preliminary studies                                    | 25 499           | 28 578           |
| Other asset items (Note 17)                            | 33 667           | 30 534           |
|                                                        | <u>4 351 194</u> | <u>4 054 758</u> |
| <b>LIABILITIES</b>                                     |                  |                  |
| Outstanding cheques less cash on hand                  | 9 930            | 5 462            |
| Accounts payable and withholdings on contracts payable | 47 305           | 56 024           |
| Accrued interest (Note 18)                             | 57 552           | 65 687           |
| Short-term borrowings (Note 19)                        | 2 043 304        | 1 916 785        |
| Long-term debt (Note 20)                               | 1 928 319        | 1 759 142        |
| Deferred income (Note 21)                              | 111 661          | 120 669          |
|                                                        | <u>4 198 071</u> | <u>3 923 769</u> |
| <b>SHAREHOLDER'S EQUITY</b>                            |                  |                  |
| Capital stocks (Note 22)                               | 10 000           | 10 000           |
| Contributed surplus                                    | 11 600           | 7 591            |
| Retained earnings                                      | 131 523          | 113 398          |
|                                                        | <u>153 123</u>   | <u>130 989</u>   |
|                                                        | <u>4 351 194</u> | <u>4 054 758</u> |

The notes are an integral part of these financial statements.

**COMMITMENTS AND CONTINGENCIES** (Note 25)

On behalf of the Board of Directors,  
Michel L. Lesage, President  
Claude Desjardins, Vice-President

## CORPORATION D'HÉBERGEMENT DU QUÉBEC

## CASH FLOWS

for the year ended March 31, 2005

(in thousands of dollars)

|                                                                                 | 2005             | 2004             |
|---------------------------------------------------------------------------------|------------------|------------------|
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                               |                  |                  |
| Net income                                                                      | 18 125           | 39 235           |
| Items not affecting cash and cash equivalents                                   |                  |                  |
| Gain on disposal of buildings intended for sale                                 | (484)            | (17)             |
| Interest on irregular coupon bonds                                              | 9 873            | 9 015            |
| Interest income attributed to loan balances and mandated projects               | (34 273)         | (31 550)         |
| Interest attributed to real properties and projects under study                 | (3 459)          | (10 656)         |
| Administrative expenses attributed to mandated projects                         | (3 661)          | (2 282)          |
| Administrative expenses attributed to real properties and projects under study  | (1 677)          | (2 768)          |
| Client rebate                                                                   | 3 539            | 4 637            |
| Amortization                                                                    |                  |                  |
| Immoveables                                                                     | 49 846           | 20 417           |
| Other asset items                                                               | 2 285            | 2 322            |
| Deferred income                                                                 | (28 153)         | (16 136)         |
| Net change in assets and liabilities linked to operations                       |                  |                  |
| Accounts receivable                                                             | (3 745)          | (3 268)          |
| Rental payments receivable                                                      | 1 302            | 1 489            |
| Accounts payable and withholdings on contracts payable                          | (4 710)          | (3 634)          |
| Accrued interest                                                                | (8 135)          | 6 044            |
|                                                                                 | <u>(3 327)</u>   | <u>12 848</u>    |
| <b>CASH FLOWS RELATED TO INVESTMENT ACTIVITIES</b>                              |                  |                  |
| Receipts from loans                                                             | 597 971          | 1 054 626        |
| Loan disbursement                                                               | (659 013)        | (1 068 959)      |
| Receipts from accounts payable – mandated projects                              | 98 275           | 74 979           |
| Receivables disbursement –mandated projects                                     | (211 697)        | (121 065)        |
| Cash inflow of Gouvernement du Québec receivables linked to the long-term debt  | 24 460           | 5 366            |
| Disbursement of Gouvernement du Québec receivables linked to the long-term debt | (6 973)          | (7 980)          |
| Acquisition of immoveables                                                      | (97 839)         | (172 246)        |
| Acquisition of buildings intended for sale                                      |                  | (5)              |
| Proceeds from the disposal of buildings intended for sale                       | 848              | 51               |
| Receipts from projects under study                                              | 24               | 29 171           |
| Disbursements for projects under study                                          | (13 226)         | (22 902)         |
| Acquisition of other assets                                                     | (2 610)          | (8 489)          |
| Proceeds from the sale of other assets                                          |                  | 700              |
|                                                                                 | <u>(269 780)</u> | <u>(236 753)</u> |
| Amounts carried forward                                                         | <u>(273 107)</u> | <u>(223 905)</u> |

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

CASH FLOWS (cont'd)  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                    | <u>2005</u>           | <u>2004</u>           |
|----------------------------------------------------|-----------------------|-----------------------|
| Amounts brought forward                            | <u>(273 107)</u>      | <u>(223 905)</u>      |
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>  |                       |                       |
| Short-term borrowings                              | 8 991 173             | 6 503 430             |
| Repayment of short-term borrowings                 | (8 864 654)           | (6 061 922)           |
| Long-term borrowings                               | 353 460               | 166 748               |
| Repayment of long-term debt                        | (214 466)             | (397 123)             |
| Net increase in deferred income                    | <u>3 124</u>          | <u>11 101</u>         |
|                                                    | <u>268 637</u>        | <u>222 234</u>        |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>       | (4 470)               | (1 671)               |
| <b>CASH AND CASH EQUIVALENT, BEGINNING OF YEAR</b> | <u>(2 974)</u>        | <u>(1 303)</u>        |
| <b>CASH AND CASH EQUIVALENT, END OF YEAR</b>       |                       |                       |
| (Note 27)                                          | <u><u>(7 444)</u></u> | <u><u>(2 974)</u></u> |

The notes are an integral part of these financial statements.

## CORPORATION D'HÉBERGEMENT DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS

as at March 31, 2005

(in thousands of dollars)

#### 1. CONSTITUTION, PURPOSE AND ACTIVITIES

La Corporation d'hébergement du Québec (Corporation) is a legal person and partnership, created under the Act respecting the Corporation d'hébergement du Québec (R.S.Q., c. 68.1)

The Corporation's mission is, for consideration and with a view to self-financing, to offer health and social services players technical and financial expertise as the funding required for the management, construction, maintenance and acquisition of immoveables, equipment and health and social service infrastructures.

Its mission also includes owning, and renting out for consideration, property used or to be used by a health and social services establishment, development agency, regional council contemplated in the Act respecting health services and social services (R.S.Q., c. S-4.2) or the Act respecting health services and social services for Cree Native persons (R.S.Q., c. S-5) or any other person, corporation or association designated for this purpose by the Minister or the Government.

#### 2. MAIN ACCOUNTING POLICIES

The financial statements of the Corporation were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### IMMOVEABLES

##### **Operational buildings**

The buildings purchased by the Corporation are recorded at cost or fair value when the consideration is minimal or nothing. The surplus of the fair value of property over its cost is recorded under the contributed surplus. The surplus of the fair value of buildings over their cost is recorded under deferred income.

The buildings are amortized over their service life using the straight-line method for amortization periods ranging from 35 to 50 years.

Property improvement and development costs and the costs added to buildings subject to an emphyteutic lease are amortized using the straight-line method for a period equivalent to their service life or the duration of the emphyteutic lease, whichever is less.

##### **Buildings under construction**

The cost of buildings under construction includes, in addition to direct costs, a relevant fraction of the related overall and administrative expenditures and financing costs. Financing costs are capitalized to buildings under construction until they are transferred to operational buildings.

##### **Leased furniture and equipment**

Leased furniture and equipment attributable to immoveables are recorded at cost. The amortization is calculated over the estimated service life using the straight-line method over a period of 10 years.

##### BUILDINGS INTENDED FOR SALE

Buildings intended for sale are evaluated at the amortized cost and its fair value minus the selling cost. The Corporation stops recording amortization as soon as it decides to sell.

##### PROJECTS UNDER STUDY

In addition to direct costs, projects under study include administrative expenses and financing charges, which are recorded until study costs are transferred to construction or repair costs or until the costs of the studies is reimbursed by the Ministère de la Santé et des Services sociaux for projects that will not be implemented.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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**2. PRINCIPALS ACCOUNTING POLICIES (cont'd)****CAPITALIZED INTEREST**

The portion of the interest expense attributable to immoveables under construction is capitalized taking into account the weighted average interest rate for short-term borrowings.

**OTHER ASSETS****Issuing expenses, discount charges and premiums related to the long-term debt**

Discounts, premiums and issuing expenses linked to the long-term debt are recorded and amortized over the duration of the respective debt according to the straight-line method.

**Deferred charges - conservation**

Conservation expenses incurred on immoveables are recorded to deferred charges and amortized according to the straight-line method over 15 years once projects have been completed in their entirety. The amounts can be invoiced to lessees. The expenses are recovered over the same 15-year period.

**Computer system development expenses**

Computer system development expenses are recorded at cost and amortized according to the straight-line method over 5 years.

**Furniture and equipment**

The furniture and equipment used for administrative purposes is recorded at cost. The amortization is calculated over the estimated service life according to the straight-line method between 5 to 10 years.

**Workplace layout**

Workplace layout is amortized according to the straight-line method over 10 and 25 years.

**LONG-TERM DEBT**

The bonds issued with irregular coupons are recorded at face value, increased annually by capitalizing the interest charge at the effective rate, according to the compound interest method.

**DEFERRED INCOME****Deferred contributions**

Deferred contributions comprise the excess of the fair value of buildings over their cost when the consideration is minimal or zero and of contributions from organizations to fund construction projects. They are gradually transferred to results using the same amortization method as for the buildings in question.

Contributions for the acquisition of immoveables received in the form of subsidies are transferred to results using the same amortization as the immoveables they refer to.

Organizations' contributions for property are recorded as surplus contributions. When conditions are attached to them, they are recorded as deferred contributions. They are transferred to surplus contributions once the conditions have been met.

**PENSION PLANS**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Corporation lacks sufficient information to apply the accounting procedure for defined-benefit plans.



**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**2. MAIN ACCOUNTING POLICIES (cont'd)****CASH AND CASH EQUIVALENT**

Cash and cash equivalents comprise outstanding cheques minus cash and short-term investments that are easy to convert into an amount whose value is unlikely to change significantly.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The Corporation uses guaranteed interest rate contracts to manage the risks resulting from interest rate fluctuations on its short-term debt. Since they are only used for coverage, the book values of these financial instruments are not adjusted according to their current market value. All amounts receivable or payable subsequent to forward rate agreements are recorded by adjusting interest payable on an accrual basis for the duration the debt is covered.

**3. CHANGE IN ACCOUNTING POLICY**

On April 1, 2004, the Corporation adopted the straight-line method to amortize its buildings in operation and its deferred contributions received in the form of a subsidy for the acquisition of fixed assets. Previously, the buildings in operation were amortized according to the compound interest method (increasing allotment) at 5%. The deferred contributions were transferred to results based on the amortization of the fixed assets to which they are related. The estimated service life of the buildings in operation continues for periods varying from 35 to 50 years. This amendment to the agreement was applied prospectively and resulted in an increase in the amortization of the buildings in operation and of the deferred contributions and a decrease in the net profit for the fiscal year ended March 31, 2005 of \$14.7 M.

**4. RENTAL INCOME – HEALTH NETWORK**

The rental income comes from 15-year leases signed as of April 1, 2000 with hospital centres (CH), local community service centres (CLSC), extended care hospital centres (CHSLD) and other health network organizations occupying the Corporation's buildings. This income is established annually based on the Corporation's rate-setting policy.

**5. RENTAL INCOME – OTHERS – NET**

|                                                  | 2005  | 2004  |
|--------------------------------------------------|-------|-------|
| Rental income                                    | 3 671 | 4 304 |
| Charges                                          |       |       |
| Operating expenses                               | 2 078 | 1 667 |
| Interest                                         | 258   | 290   |
| Conservation work                                | 441   | 330   |
| Amortization of buildings                        | 661   | 323   |
| Amortization of workplace layout                 | 94    | 241   |
|                                                  | 3 532 | 2 851 |
| Less: amounts attributed to projects under study |       | 47    |
|                                                  | 3 532 | 2 804 |
|                                                  | 139   | 1 500 |

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**6. GOVERNMENT OF CANADA SUBSIDY**

Under section 95 of the National Housing Act (R.S.C., c. N-11), the Corporation is eligible for financial assistance from the Government of Canada to help pay the cost of public housing projects. To date, 23 projects have been declared eligible.

**7. FINANCIAL EXPENSES – NET**

|                                                                                                                               | 2005           | 2004           |
|-------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Interest on long-term debt</b>                                                                                             |                |                |
| Bonds                                                                                                                         | 22 227         | 24 592         |
| Notes                                                                                                                         | 106 880        | 111 772        |
| Other debts                                                                                                                   | 7 747          | 8 997          |
| Amortization of discounts, premiums and issuing<br>for long-term debts                                                        | 358            | 350            |
| Other financial expenses                                                                                                      | 29             | 20             |
|                                                                                                                               | <u>137 241</u> | <u>145 731</u> |
| Less:                                                                                                                         |                |                |
| Interest income from an Amortization Fund related to the<br>Corporation's immovables managed by the Ministère<br>des Finances | <u>1 985</u>   | <u>2 235</u>   |
|                                                                                                                               | <u>135 256</u> | <u>143 496</u> |
| <b>Interest on short-term borrowings</b>                                                                                      |                |                |
| Interest                                                                                                                      | 49 840         | 53 057         |
| Less:                                                                                                                         |                |                |
| Interest posted to immovables under construction<br>owned by the Corporation and to projects under<br>study                   | 3 459          | 10 656         |
| Interest income                                                                                                               | <u>2</u>       | <u>203</u>     |
|                                                                                                                               | <u>46 379</u>  | <u>42 198</u>  |
|                                                                                                                               | <u>181 635</u> | <u>185 694</u> |

The interest charges on borrowings contracted from related enterprises totalled \$109.6 M (2004: \$114.9 M) for long-term borrowings and \$3.9 M (2004: \$15.9 M) for short-term borrowings.

**8. AMORTIZATION**

|                                  | 2005          | 2004          |
|----------------------------------|---------------|---------------|
| <b>Real estate</b>               |               |               |
| Buildings operating              | 45 628        | 16 994        |
| Rented furniture and equipment   | 3 557         | 3 100         |
| <b>Other assets</b>              |               |               |
| Deferred expenses – conservation | <u>1 558</u>  | <u>1 473</u>  |
|                                  | <u>50 743</u> | <u>21 567</u> |

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**9. GENERAL AND ADMINISTRATIVE CHARGES**

|                                                                                                                                                               | 2005  | 2004   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|--------|
| Salaries and fringe benefits                                                                                                                                  | 7 654 | 7 737  |
| Cost of offices occupied by the Corporation                                                                                                                   | 488   | 746    |
| Professional services                                                                                                                                         | 285   | 264    |
| Mail, courier services, communications and marketing                                                                                                          | 161   | 146    |
| Computers                                                                                                                                                     | 199   | 224    |
| Administrative and office expenses                                                                                                                            | 190   | 216    |
| Other charges                                                                                                                                                 | 584   | 345    |
| Amortization of furniture and equipment and computer systems                                                                                                  | 275   | 258    |
| Bank of vacation time and sick leave taken over in the transfer of employees and their fringe benefits from the Ministère de la Santé et des Services sociaux | 55    | 79     |
|                                                                                                                                                               | 9 891 | 10 015 |
| Less:                                                                                                                                                         |       |        |
| Administrative expenses attributed to real property, projects under study and other assets                                                                    | 1 677 | 2 909  |
| Direct costs related to consulting costs and the building informationsystem                                                                                   | 405   | 393    |
|                                                                                                                                                               | 7 809 | 6 713  |

**10. CLIENT REBATE**

Due to the surpluses resulting in 2004-2005 from the application of its rate policy, the Corporation decided to give its health and social services clientele a rebate. This rebate equals 8% of the interest charge for 2004-2005 on accounts receivable – projects mandated and on loans bearing interest at the prime rate less 1% until June 30, 2004 and at the one-month bank acceptance rate + 0.30% as of July 1, 2004.

**11. ACCOUNTS RECEIVABLE**

|                                                                                                                                                                                                                                          | 2005   | 2004   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Amount receivable for McGill University Health Centre following transfer of a project under study including interest at the prime rate less 1% until June 30, 2004 and at the one-month bank acceptance rate + 0.30% as of July 1, 2004. | 20 046 | 19 507 |
| Local health and social services networks development agencies                                                                                                                                                                           | 6      | 123    |
| Others                                                                                                                                                                                                                                   | 9 295  | 5 897  |
|                                                                                                                                                                                                                                          | 29 347 | 25 527 |

**12. RENT RECEIVABLE**

At March 31, 2000, the Corporation posted a subsidy receivable from the Ministère de la Santé et des Services sociaux for interest accrued but not payable relayed to long-term borrowings recorded in its financial statements. Since the Corporation no longer receives a subsidy from the Ministère de la Santé et des Services sociaux, this amount was converted, with the Department's approval, to "Rent receivable". This rent receivable will be repaid to the Corporation by the establishments according to a schedule of pre-determined instalments.

## CORPORATION D'HÉBERGEMENT DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2005

(in thousands of dollars)

**13. LOANS**

|                                                                  | 2005             | 2004             |
|------------------------------------------------------------------|------------------|------------------|
| Local health and social services networks development agencies * | 907 063          | 890 553          |
| Health network establishments**                                  | 848 036          | 840 106          |
| Daycare centres***                                               | 171 301          | 107 962          |
| Other                                                            | 298              | 501              |
|                                                                  | <u>1 926 698</u> | <u>1 839 122</u> |

\* These loans include an amount of \$622.8 M (2004: \$735.6 M) for loan agreements maturing in 2023 for which there is long-term financing. Loan payments can be cashed in on September 30 and March 31 each year and come with a moveable hypothec guarantee. The amounts received correspond to the capital and interest instalments payable on the long-term debt whose interest rates vary between 5.5% and 12.5% (2004: 5.3% and 12.5%) for maturity dates between 2006 and 2023. These loans also include a short-term amount of \$284.3 M (2004: \$155.0 M) which consists of credit margins currently bearing interest for one-month bank acceptances + 0.30%.

\*\* These loans include an amount of \$839.2 M (2004: \$831.5 M) which consists of credit margins whose rate is currently equivalent to the prime rate of bank acceptances + 0.30%. These loans include an amount of \$8.9 M (2004: \$8.6 M) contemplated in long-term loan agreements maturing between 2005 and 2017 and bearing interest at the one-month bank acceptance prime rate + 0.30%.

\*\*\* These short-term loans currently bear interest at the prime rate minus 0.5%

Since July 1, 2004, the Corporation intends to endorse the Ministère de la Santé et des Services sociaux's new policy putting a ceiling on the cost of short-term financing for organizations in the health and social services network for one-month bank acceptances + 0.30%.

**14. ACCOUNTS RECEIVABLE – MANDATED PROJECTS**

Accounts receivable – mandated projects includes all direct costs plus management fees and interest, calculated at the prime rate less 1% until June 30, 2004 and at the one-month bank acceptance rate + 0.30% as of July 1, 2004 related to construction projects entrusted to the Corporation by the health network. These payables will be paid when the project is completed by cashing the funding realized by the establishment.

**15. REAL ESTATE**

|                         | 2005             |                          | 2004             |
|-------------------------|------------------|--------------------------|------------------|
|                         | Cost             | Accumulated depreciation | Net value        |
| Buildings operating     |                  |                          |                  |
| Land                    | 113 224          |                          | 94 864           |
| Buildings               | 1 809 710        | 227 735                  | 1 581 975        |
| Amounts carried forward | <u>1 922 934</u> | <u>227 735</u>           | <u>1 695 199</u> |
|                         |                  |                          | <u>1 453 851</u> |

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**15. REAL ESTATE (cont'd)**

|                                | 2005      |                          | 2004      |
|--------------------------------|-----------|--------------------------|-----------|
|                                | Cost      | Accumulated depreciation | Net value |
| Amounts brought forward        | 1 922 934 | 227 735                  | 1 695 199 |
| Buildings under construction   |           |                          |           |
| Land                           | 5 000     |                          | 5 000     |
| Buildings                      | 88 857    |                          | 88 857    |
|                                | 93 857    |                          | 93 857    |
| Rented furniture and equipment | 43 761    | 18 627                   | 25 134    |
|                                | 2 060 552 | 246 362                  | 1 814 190 |

**COSTS CAPITALIZED TO REAL ESTATE**

During the year, the following costs were capitalized to real estate.

|                                    | 2005  | 2004  |
|------------------------------------|-------|-------|
| Interest on short-term borrowings  | 2 982 | 8 291 |
| General and administrative charges | 1 484 | 2 583 |

**16. BUILDINGS INTENDED FOR SALE**

|                    | 2005 | 2004 |
|--------------------|------|------|
| Land, at cost      | 877  | 441  |
| Buildings, at cost | 3    |      |
|                    | 880  | 441  |

**17. OTHER ASSETS**

|                                                                     | 2005   |                          | 2004      |
|---------------------------------------------------------------------|--------|--------------------------|-----------|
|                                                                     | Cost   | Accumulated depreciation | Net value |
| Issuing, discount and premium expenses linked to the long-term debt | 9 596  | 1 392                    | 8 204     |
| Deferred expenses – conservation                                    | 26 131 | 3 627                    | 22 504    |
| Computer systems                                                    | 894    | 523                      | 371       |
| Furniture and equipment                                             | 986    | 432                      | 554       |
| Workplace layout                                                    | 2 094  | 191                      | 1 903     |
| Deferred expenses – other                                           | 131    |                          | 131       |
|                                                                     | 39 832 | 6 165                    | 33 667    |

## CORPORATION D'HÉBERGEMENT DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2005

(in thousands of dollars)

**18. INTEREST ACCRUED**

|                 | 2005          | 2004          |
|-----------------|---------------|---------------|
| Related parties | 40 980        | 41 052        |
| Others          | 16 572        | 24 635        |
|                 | <u>57 552</u> | <u>65 687</u> |

**19. SHORT-TERM BORROWINGS**

|                                                                                        | 2005             | 2004             |
|----------------------------------------------------------------------------------------|------------------|------------------|
| Discount notes                                                                         |                  |                  |
| Financial institutions, 2.26% to 2.95%<br>(2004: 2.10% to 3.67%)                       | 1 747 660        | 1 716 785        |
| Notes at par value                                                                     |                  |                  |
| Financing Fund of the Gouvernement du Québec,<br>2.62% to 2.64% (2004: 2.15% to 3.67%) | 225 350          | 200 000          |
| Others, 2.53% to 2.71%                                                                 | 70 294           |                  |
|                                                                                        | <u>2 043 304</u> | <u>1 916 785</u> |

As at March 31, 2005, the Corporation had a credit margin of \$10 M. It is renewable annually on September 30, 2005. The amounts used bear interest at the prime rate.

**20. LONG-TERM DEBT**

|                                                                                                                                                                                                  | 2005             | 2004             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Bonds                                                                                                                                                                                            |                  |                  |
| - 5.9%, maturing in 2006 (2004: 5.4% to 5.9%, maturing in 2005 and 2006)                                                                                                                         | 7 990            | 11 690           |
| - 6.15%, maturing in 2006 (2004: 6.15% to 10%, maturing in 2005 and 2006)                                                                                                                        | 6 900            | 47 852           |
| - 10.75% to 12.5%, maturing from 2006 to 2019 (2004: 10.10% to 12.75%, maturing in 2005 and 2019)                                                                                                | 75 610           | 89 377           |
| - Interest-free for certain period and bearing interest for the remainder from 68% to 156% (effective rates of 10.46% to 10.51%), maturing between 2013 to 2015 including capitalizable interest | 102 099          | 94 946           |
| Borrowing on notes from the Financing Fund of the<br>Gouvernement du Québec at variable rates:                                                                                                   |                  |                  |
| - 3.82% to 6.52%, maturing from 2006 to 2037<br>(2004: 5.28% to 6.52%, maturing from 2006 to 2037)                                                                                               | 1 301 711        | 991 861          |
| - 6.77% to 7.75%, maturing from 2006 to 2023                                                                                                                                                     | 244 053          | 260 475          |
| - 8.00% to 9.50%, maturing from 2006 to 2021<br>(2004: 8.00% to 9.75%, maturing from 2005 to 2021)                                                                                               | 159 994          | 233 644          |
| Borrowing on notes from Financement-Québec at variable rates:                                                                                                                                    |                  |                  |
| - 5.56% to 6.40%, maturing from 2006 to 2016                                                                                                                                                     | 1 430            | 1 533            |
| - 7.75% to 8.32%, maturing in 2006 and 2019                                                                                                                                                      | 2 333            | 2 525            |
| - 9.38%, maturing in 2018                                                                                                                                                                        | 545              | 587              |
| Amounts carried forward                                                                                                                                                                          | <u>1 902 665</u> | <u>1 734 490</u> |

## CORPORATION D'HÉBERGEMENT DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2005

(in thousands of dollars)

**20. LONG-TERM DEBT** (cont'd)

|                                                                                                                                        | 2005      | 2004      |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Amounts brought forward                                                                                                                | 1 902 665 | 1 734 490 |
| Borrowing from the Canada Mortgage and Housing Corporation at variable rates:                                                          |           |           |
| - 5.88% to 6.25%, maturing in 2018 and 2019                                                                                            | 781       | 819       |
| - 8%, maturing from 2029 to 2032                                                                                                       | 55 402    | 56 031    |
| Real estate mortgages from the Société d'habitation du Québec guaranteed by immovables of a book value of \$115.1 M at variable rates: |           |           |
| - 6.88%, maturing from 2020 to 2023                                                                                                    | 15 577    | 16 081    |
| - 7.5% to 7.88%, maturing from 2021 to 2029                                                                                            | 4 771     | 4 875     |
| - 8%, maturing from 2028 to 2030                                                                                                       | 14 937    | 15 135    |
| Balance of sales prices from the Commission de la santé et de la sécurité du travail, at 7.50%, repaid during the fiscal year          |           | 3 783     |
| Other real estates mortgages immovables                                                                                                |           |           |
| - 10.66% and 11.25% maturing during the fiscal year                                                                                    |           | 11 229    |
|                                                                                                                                        | 1 994 133 | 1 842 443 |
| Less:                                                                                                                                  |           |           |
| Gouvernement du Québec receivables linked to the long-term debt *                                                                      | 65 814    | 83 301    |
|                                                                                                                                        | 1 928 319 | 1 759 142 |

\* Under its statute, the Corporation deposits amounts slated for the repayment of a portion of its qualifying debts in the amortization fund for borrowings by Québec health and social service agencies managed by the Ministère des Finances.

All long-term debts bear interest at fixed rates.

Payments of principal on the long-term debt for the next five fiscal years are as follows:

|      | Financement<br>Québec | Financing<br>Fund of the<br>Gouvernement<br>du Québec | Société<br>d'habitation<br>du Québec | Other non<br>related<br>parties | Payments<br>(net contribu-<br>tions)<br>at (from) the<br>Amortization<br>Fund | Total<br>instalments |
|------|-----------------------|-------------------------------------------------------|--------------------------------------|---------------------------------|-------------------------------------------------------------------------------|----------------------|
| 2006 | 2 544                 | 246 629                                               | 866                                  | 22 070                          | (1 354)                                                                       | 270 755              |
| 2007 | 146                   | 67 929                                                | 930                                  | 6 218                           | 3 807                                                                         | 79 030               |
| 2008 | 146                   | 238 890                                               | 999                                  | 20 821                          | (6 069)                                                                       | 254 787              |
| 2009 | 313                   | 53 563                                                | 1 073                                | 56 399                          | (36 718)                                                                      | 74 630               |
| 2010 | 129                   | 146 023                                               | 1 153                                | 18 122                          | 1 320                                                                         | 166 747              |

Movable hypothecs bind the departmental subsidy paid to health sector players in the Corporation's favour. The latter could henceforth be transferred to the Corporation's non-related creditors to guarantee their loans.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**21. DEFERRED INCOME**

|                                                       | 2005           |                          | 2004           |
|-------------------------------------------------------|----------------|--------------------------|----------------|
|                                                       | Cost           | Accumulated depreciation | Net value      |
| Deferred contributions                                | 322 471        | 210 810                  | 111 661        |
| Deferred net gains – derivative financial instruments |                |                          | 1 036          |
|                                                       | <u>322 471</u> | <u>210 810</u>           | <u>120 669</u> |

Deferred contributions related to transfer subsidies paid by shareholders before April 1, 2000 were amortized in their entirety during the fiscal year. Use of the amounts freed up by amortization of these contributions whose net value on April 1, 2000 totalled \$83.1M, must be pre-approved by shareholders. During the year, organizations' contributions for funding construction projects totalled \$3.4M (2004: \$10.2M).

**22. CAPITAL STOCK**

|                                                                                    | 2005          | 2004          |
|------------------------------------------------------------------------------------|---------------|---------------|
| Corporation d'hébergement du Québec stocks are held by the Ministère des Finances. |               |               |
| Authorized                                                                         |               |               |
| 5 000 000 common shares                                                            |               |               |
| of a face value of \$100 each                                                      |               |               |
| Issued and paid:                                                                   |               |               |
| 100 000 shares                                                                     | <u>10 000</u> | <u>10 000</u> |

**23. 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 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 are not shown separately in the financial statements.

**24. FINANCIAL INSTRUMENTS****FAIR VALUE OF FINANCIAL INSTRUMENTS****Derivative financial instruments**

To protect against interest-rate risks related to short-term financing activities, the Corporation signed interest rate capping agreements, all of which run for less than one year.

|           | 2005         |                    | 2004       |                    |
|-----------|--------------|--------------------|------------|--------------------|
|           | Fair value   | Contracted capital | Fair value | Contracted capital |
| Purchases | <u>(138)</u> | <u>474 000</u>     | <u>231</u> | <u>685 000</u>     |

A short-term investment in the amount of \$2.5 M (2004: \$2.5 M) is pledged against certain agreements. This investment is presented at cost, bears interest at a rate of 2.43% and matures in April 2005.



## CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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### 24. FINANCIAL INSTRUMENTS (cont'd)

#### FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

##### Long-term debt

At March 31, 2005, the fair value of the long-term debt of \$1 994.1 M (2004: \$1 842.4 M) was \$2 208.8 M (2004: \$2 080.0 M), given the capitalization of cash flows at market prices for securities of similar nature in terms of maturity date and interest rate. Of the above-mentioned fair value, an amount of \$91.5 M (2004: \$92.9 M) was not assessed and was considered at book value, given the lack of a market for these long-term debts, whose rates are guaranteed for periods ranging between 13 and 27 years.

##### Gouvernement du Québec amounts receivable linked to the long-term debt

At March 31, 2005, the fair value of \$65.8 M (2004: \$83.3 M), which represented amounts receivable from the Québec government linked to the long-term debt, was \$76.3 M (2004: \$112.0 M), given the market value of these investments of the related Amortization Fund.

##### Short-term borrowings

The fair value of short-term borrowings at March 31, 2005, in the amount of \$2 043.3 M (2004: \$1 916.8 M) corresponds to the book value of these securities, given their pending renewal.

##### Loans

At March 31, 2005, the fair value of loans of \$1 926.7 M (2004: \$1 839.1 M) was 2 032.2 M\$ (2004: \$1 986.2 M). An amount of \$728.3 M (2004: \$882.7 M) represented the fair value of loans equivalent to that of the long-term debt attributable to these debts, given that the amounts receivable correspond to capital and interest payments payable on these same debts. An amount of \$1 303.9 M (2004: \$1 103.5 M) was not assessed and was considered at book value, given the lack of a market for this type of loan. These loans are at varying rates for terms that are generally undetermined.

##### Rental payments receivable

The fair value of rental payments receivable cannot be estimated, given the lack of a market for this type of debt. These rental payments receivable are spread over a remaining period of 28 years and do not bear interest.

##### Other assets and liabilities

The fair value of short-term investments, accounts receivable, Gouvernement du Québec subsidies receivable, debts receivable, mandated projects, outstanding cheques less cash, accounts payable and withholdings on contracts payable and interest earned equals their book value, given that they fall due within the near future or that their terms are undetermined.

#### INTEREST-RATE AND CREDIT RISK

Exposure to interest-rate risk in relation to the long-term debt is very limited since all interest costs are re-invoiced via health network rental leases and through loan agreements. The credit risk is very limited since the Ministère de la Santé et des Services sociaux acknowledged, in its expenditure budgets, the financial commitments of health establishments where leases and loans are concerned.

### 25. COMMITMENTS AND CONTINGENCIES

#### COMMITMENTS

At March 31, 2005, the balance of uncompleted contracts signed by the Corporation targeted by contractual agreement totalled \$83.6 M (2004: \$87.5 M), including \$26.3 M (2004: \$29.3 M) for projects under way and \$55.8 M (2004: \$57.2 M) for projects under study.

On April 21, 2005, the Corporation signed a \$28 M contract for environmental restoration work to be carried out over the coming two years.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**25. COMMITMENTS AND CONTINGENCIES (cont'd)****CREDIT INSTRUMENTS**

The credit instruments used to meet the Corporation's clients' financing needs represent the maximum amount of additional credit that the Corporation may have to grant if commitment are used in their entirety.

The total amount of credit instruments does not necessarily represent the needs for future cash assets since these instruments may expire or be terminated without having given rise to disbursements. The table below shows the contractual amounts not used.

|                                                                | 2005           | 2004           |
|----------------------------------------------------------------|----------------|----------------|
| <b>Loans</b>                                                   |                |                |
| Local health and social services networks development agencies | 180 833        | 175 617        |
| Health network establishments                                  | 2 715          | 4 575          |
| Daycare centres                                                | 55 486         | 65 846         |
| Others                                                         | 108            |                |
|                                                                | <u>239 142</u> | <u>246 038</u> |

**CONTINGENCIES****Insurance claim**

A \$35 M claim was sent to insurers for a fire at the Hôtel-Dieu de Roberval in December 1998. The insurer had paid \$6.1 M of this amount at March 31, 2005. When the financial statements were being prepared the Corporation was not in a position to assess the additional amount that might possibly result from this claim.

**Financing of deductibles on civil and professional liability insurance policies of institutions covered by the insurance plan of the Association des hôpitaux du Québec**

Under section 472.1 of the Act respecting health services and social services (R.S.Q., c. S-4.2), the Corporation d'hébergement du Québec may be required to guarantee the discharge of any obligation of associations recognized by the MSSS under section 267 of the Act in relation to the management of the deductible under an insurance contract negotiated or entered into by the association on behalf of its members. It may also advance to the association any sum deemed necessary for the management of said deductible.

The Minister may, on the conditions determined by the Government, reimburse the Corporation d'hébergement du Québec any sum it may be required to pay in relation to this guarantee.

**Lawsuits and claims**

When these financial statements were being prepared, claims and lawsuits existed against the Corporation d'hébergement du Québec, for \$43.3 M. Of this amount, \$22 M is related to a notice of expropriation with a view to acquire a property accompanied by an offer of compensation in the amount of \$0.9 M contested by the expropriated parties. On October 7, 2002, the Tribunal administratif du Québec (TAQ) set compensation at a \$6.9 M. The Corporation appealed this ruling before the Court of Québec, which authorized the appeal and suspended execution of the TAQ ruling. However, on the basis of the information available, management feels that it is unlikely that any major liability need be considered regarding these claims and lawsuits in relation to the Corporation's financial situation.

Where applicable, payments by the Corporation will be recorded to charges for the fiscal year, either capitalized to fixed assets depending on the nature of the claim, or reduced by the provisions already on the books, if need be.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**26. FUTURE FRINGE BENEFITS**
**Pension plans**

The staff members of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP), Civil Service Superannuation Plan (CSSP) or Pension Plan for Senior Officials (PPSO) administered by a Gouvernement du Québec agency. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The liability of the Commission towards these government plans is restricted to its contributions as an employer. The Corporation's contributions charged to the year-end statement amount to \$0.3 M (2004: \$0.2 M).

**Provision for sick leave and vacation time**

|                               | 2005             |               |       | 2004  |
|-------------------------------|------------------|---------------|-------|-------|
|                               | Vacation<br>time | Sick<br>leave | Total | Total |
| Opening balance               | 720              | 1 374         | 2 094 | 2 012 |
| Amounts transferred *         | (14)             | (41)          | (55)  | 79    |
| Charge for the year           | 614              | 171           | 785   | 776   |
| Subtotal                      | 1 320            | 1 504         | 2 824 | 2 867 |
| Less:                         |                  |               |       |       |
| Benefits paid during the year | 591              | 379           | 970   | 773   |
| Closing balance               | 729              | 1 125         | 1 854 | 2 094 |

The balance of this provision is included under "Accounts receivable and withheld on contracts payable".

\* The amounts transferred represent vacation time and sick leave payable or written off following the transfer of Gouvernement du Québec employees and the Corporation.

**27. CASH FLOWS**

Cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

|                               | 2005    | 2004    |
|-------------------------------|---------|---------|
| Short-term investments        | 2 486   | 2 488   |
| Outstanding cheques less cash | (9 930) | (5 462) |
| Cash and cash equivalents     | (7 444) | (2 974) |

Interest paid during the fiscal year by the Corporation totalled \$185.0 M (2004: \$183.2 M). Interest received during the fiscal year by the Corporation totalled \$70.6 M (2004: \$91.5 M).

During the fiscal year, real property was acquired for a total cost of \$127.6 M (2004: \$192.8 M), \$97.8 M (2004: \$172.2 M) of which was disbursed during the fiscal year. Further, the remainders of the total acquisition of fixed assets, \$20.0 M (2004: \$10.8 M) were acquired by recording the excess of the fair value of the property acquired over their cost when the consideration was minor or zero.

**CORPORATION D'HÉBERGEMENT DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Corporation d'hébergement du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Corporation 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 audit committee, whose members are not management employees. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 L. Lesage  
President and Chief Executive Officer

Sainte-Foy, May 20, 2005

**CORPORATION D'HÉBERGEMENT DU QUÉBEC****AUDITOR'S REPORT**

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To the Québec Minister of Finance

I have audited the balance sheet of the Corporation d'hébergement du Québec as at March 31, 2005 and the statements of results, retained earnings, contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Corporation's financial position as at March 31, 2005 and the results of its operations and cash flows 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, apart from the change made to the amortization method for buildings in operation and the related deferred contributions disclosed 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, May 20, 2005

**CORPORATION D'URGENCES-SANTÉ**  
(R.S.Q., c. S-5)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                        | <u>2005</u>        | <u>2004</u>        |
|----------------------------------------|--------------------|--------------------|
| <b>REVENUE</b>                         |                    |                    |
| Subsidies (Note 3)                     | \$53 952 699       | \$53 254 754       |
| Ambulance services (Note 4)            | 27 520 533         | 27 259 075         |
| Miscellaneous                          | 430 492            | 334 983            |
|                                        | <u>81 903 724</u>  | <u>80 848 812</u>  |
| <b>EXPENDITURE</b> (Note 5)            | <u>81 363 664</u>  | <u>80 569 991</u>  |
| <b>EXCESS REVENUE OVER EXPENDITURE</b> | 540 060            | 278 821            |
| <b>SURPLUS, BEGINNING OF YEAR</b>      | <u>1 526 652</u>   | <u>1 247 831</u>   |
| <b>SURPLUS, END OF YEAR</b>            | <u>\$2 066 712</u> | <u>\$1 526 652</u> |

The notes are an integral part of these financial statements.

**CORPORATION D'URGENTES-SANTÉ**BALANCE SHEET  
as at March 31, 2005

|                                                           | <u>2005</u>                | <u>2004</u>                |
|-----------------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                             |                            |                            |
| <b>Current assets</b>                                     |                            |                            |
| Cash on hand                                              | \$10 046 485               | \$6 019 055                |
| Accounts receivable (Note 7)                              | 5 751 947                  | 7 457 999                  |
| Prepaid expenses                                          | <u>619 486</u>             | <u>343 335</u>             |
|                                                           | 16 417 918                 | 13 820 389                 |
| <b>Fixed assets</b> (Note 9)                              | <u>3 341 833</u>           | <u>7 533 943</u>           |
|                                                           | <u><u>\$19 759 751</u></u> | <u><u>\$21 354 332</u></u> |
| <b>LIABILITIES</b>                                        |                            |                            |
| <b>Current liabilities</b>                                |                            |                            |
| Owed to the Provincial Activities Fund                    | \$634 439                  | \$460 943                  |
| Accounts payable and accruals                             | 14 640 718                 | 14 268 256                 |
| Deferred subsidies                                        | 87 000                     | 87 000                     |
| Instalments on commitments under capital leases (Note 11) | <u>2 025 603</u>           | <u>2 818 691</u>           |
|                                                           | 17 387 760                 | 17 634 890                 |
| <b>Commitments under capital leases</b> (Note 11)         | <u>305 279</u>             | <u>2 192 790</u>           |
|                                                           | 17 693 039                 | 19 827 680                 |
| <b>SURPLUS</b>                                            | <u>2 066 712</u>           | <u>1 526 652</u>           |
|                                                           | <u><u>\$19 759 751</u></u> | <u><u>\$21 354 332</u></u> |
| <b>COMMITMENTS</b> (Note 14)                              |                            |                            |
| <b>SUBSEQUENT EVENT</b> (Note 15)                         |                            |                            |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Jacques Cotton  
Alain Vadeboncoeur

**CORPORATION D'URGENTES-SANTÉ****CASH FLOWS**

for the year ended March 31, 2005

|                                                                   | <u>2005</u>                | <u>2004</u>               |
|-------------------------------------------------------------------|----------------------------|---------------------------|
| <b>CASH FLOW ORIGINATING FROM<br/>(APPROPRIATED TO) (Note 16)</b> |                            |                           |
| <b>OPERATING ACTIVITIES</b>                                       |                            |                           |
| Excess revenue over expenditure                                   | \$540 060                  | \$278 821                 |
| Non-cash items charged to operating results:                      |                            |                           |
| Depreciation of fixed assets                                      | 4 641 724                  | 5 758 138                 |
| Loss (Gain) on disposal of fixed assets                           | <u>13 960</u>              | <u>26 121</u>             |
|                                                                   | ..... 5 195 744 .....      | ..... 6 063 080 .....     |
| Changes in assets and liabilities related to operations           |                            |                           |
| Current assets, (increase) decrease                               |                            |                           |
| Accounts receivable                                               | 1 706 052                  | (1 370 443)               |
| Prepaid expenses                                                  | (276 151)                  | 441 240                   |
| Current liabilities, increase (decrease)                          |                            |                           |
| Owed to the Provincial Activities Fund                            | 173 496                    | (204 288)                 |
| Accounts payable and accruals                                     | 361 402                    | 584 641                   |
| Deferred subsidies                                                | <u>87 000</u>              | <u>87 000</u>             |
|                                                                   | ..... 1 964 799 .....      | ..... (461 850) .....     |
|                                                                   | <u>7 160 543</u>           | <u>5 601 230</u>          |
| <b>FINANCING ACTIVITIES</b>                                       |                            |                           |
| Reimbursement of the debt for capital lease contracts             | <u>(2 854 664)</u>         | <u>(3 802 427)</u>        |
| <b>INVESTMENT ACTIVITIES</b>                                      |                            |                           |
| Acquisition of fixed assets                                       | (278 449)                  | (346 507)                 |
| Proceeds from disposal of fixed assets                            | <u>3 194</u>               | <u>3 194</u>              |
|                                                                   | <u>(278 449)</u>           | <u>(343 313)</u>          |
| <b>INCREASE IN CASH ON HAND</b>                                   | 4 027 430                  | 1 455 490                 |
| <b>CASH ON HAND, BEGINNING OF YEAR</b>                            | <u>6 019 055</u>           | <u>4 563 565</u>          |
| <b>CASH ON HAND, END OF YEAR</b>                                  | <u><u>\$10 046 485</u></u> | <u><u>\$6 019 055</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, 2005

|                                                                                                   | 2005                    | 2004                    |
|---------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| <b>OPENING BALANCE</b>                                                                            | <u>\$460 943</u>        | <u>\$1 405 218</u>      |
| <b>Increase</b>                                                                                   |                         |                         |
| Gouvernement du Québec subsidy                                                                    | 819 846                 | 615 821                 |
| Interest                                                                                          | <u>10 429</u>           | <u>22 363</u>           |
|                                                                                                   | <u>830 275</u>          | <u>638 184</u>          |
| <b>Decrease</b>                                                                                   |                         |                         |
| Contribution to the International Interdisciplinary Conference<br>on Emergencies                  | 25 000                  |                         |
| Contribution to the scientific convention<br>of the Association des médecins d'urgences du Québec |                         | 5 000                   |
| Fees                                                                                              | 35 731                  | 24 900                  |
| Call prioritization system                                                                        | 318 775                 | 291 428                 |
| Funding of public awareness of trained first-aid worker project                                   | 23 000                  |                         |
| Training                                                                                          | 4 000                   | 269 433                 |
| Purchase of individual protective clothing                                                        |                         | 923 847                 |
| Uniforms and test individual protective clothing                                                  |                         | 10 501                  |
| Specialized medical furnishings                                                                   | 4 898                   | 28 948                  |
| Purchase of crests                                                                                | 41 026                  | 25 134                  |
| Legal fees                                                                                        | <u>324</u>              | <u>3 268</u>            |
|                                                                                                   | <u>452 754</u>          | <u>1 582 459</u>        |
| <b>CLOSING BALANCE</b>                                                                            | <u><u>\$838 464</u></u> | <u><u>\$460 943</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, 2005

|                                                                                             | <u>2005</u>                 | <u>2004</u>                 |
|---------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                                                                               |                             |                             |
| <b>Current assets</b>                                                                       |                             |                             |
| Amount receivable from the Ministère de la Santé et<br>des Services sociaux                 | \$204 025                   |                             |
| Owed by the Corporation, bearing interest at prime rate<br>less 2%, without repayment terms | <u>634 439</u>              | <u>\$460 943</u>            |
|                                                                                             | <u><u>\$838 464</u></u>     | <u><u>\$460 943</u></u>     |
| <br><b>FUND BALANCE</b>                                                                     | <br><u><u>\$838 464</u></u> | <br><u><u>\$460 943</u></u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Jacques Cotton  
Alain Vadeboncoeur

**CORPORATION D'URGENCES-SANTÉ**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

The Corporation d'urgences-santé 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.

In accordance with a Ministère de la Santé et des Services sociaux directive, the surplus can be used only for the purposes stipulated in the legislation and cannot be used without the Department's prior authorization.

**Provincial Activities Fund**

The Ministère de la Santé et des Services Sociaux (MSSS) mandated the Corporation to acquire safety equipment and uniforms for all emergency medical technicians in the Province of Québec. As trustee for the Provincial Activities Fund, the Corporation must ensure equipment distribution, exchanges and replacement. Subsidies granted by the Department to the Fund cover purchase costs for individual protective clothing, as well as related direct costs. At the Department's request, the Fund also assumes specific expenses related to all pre-hospitalization services.

Operations under these mandates are accounted for separately from the Corporation's operations.

**2. ACCOUNTING POLICIES**

The financial statements of the Corporation were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are recorded at cost and depreciated on a straight-line basis over the following estimated service lives:

|                                |                             |
|--------------------------------|-----------------------------|
| Data processing equipment      | 3 and 5 years               |
| Furniture and equipment        | 5 years                     |
| Automotive equipment           | From 36 months to 60 months |
| Computer-aided dispatch system | 5 years                     |

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Corporation lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**3. REVENUE - SUBSIDIES**

|                                               | 2005                | 2004                |
|-----------------------------------------------|---------------------|---------------------|
| Ministère de la Santé et des Services sociaux |                     |                     |
| - operating subsidy                           | \$35 005 154        | \$34 894 730        |
| Société de l'assurance automobile du Québec   | 18 947 545          | 18 360 024          |
|                                               | <u>\$53 952 699</u> | <u>\$53 254 754</u> |

**CORPORATION D'URGENCES-SANTÉ**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**4. REVENUE - AMBULANCE SERVICES**

|                                                   | 2005                | 2004                |
|---------------------------------------------------|---------------------|---------------------|
| Health and social services institutions           | \$9 510 314         | \$9 542 062         |
| Ministère de la Santé et des Services sociaux     |                     |                     |
| - subsidy for institutions                        | 5 714 729           | 5 645 044           |
|                                                   | <u>15 225 043</u>   | <u>15 187 106</u>   |
| Société de l'assurance automobile du Québec       | 1 033 909           | 1 067 015           |
| Ministère de l'Emploi et de la Solidarité sociale | 4 306 150           | 4 264 467           |
| Individuals                                       | 6 589 863           | 6 396 109           |
| Other                                             | 365 568             | 344 378             |
|                                                   | <u>\$27 520 533</u> | <u>\$27 259 075</u> |

**5. EXPENDITURE BY RESPONSIBILITY CENTRE**

|                                          | Training           | General<br>administration | Data<br>processing | Pre-hospital<br>emergency<br>services |
|------------------------------------------|--------------------|---------------------------|--------------------|---------------------------------------|
| Salaries and wages                       | \$1 044 914        | \$3 107 341               | \$1 327 005        | \$28 288 790                          |
| Fringe benefits <sup>a</sup>             | 742 196            | 1 302 249                 | 284 491            | 6 494 892                             |
| Payroll taxes <sup>b</sup>               | 478 479            | 735 281                   | 210 019            | 9 533 276                             |
| Medical supplies and medication          | 6 222              | 351                       |                    | 1 922 644                             |
| Travelling expenses                      | 11 194             | 95 743                    | 2 688              | 64 319                                |
| Services purchased (Note 6)              | 292 537            | 1 220 592                 | 560 689            | 881 292                               |
| Communications                           | 1 896              | 195 336                   | 1 456              | 74 764                                |
| Building rental                          |                    | 32 181                    | 2 573              | 1 483 066                             |
| Equipment rental                         |                    | 4 259                     |                    | 13 080                                |
| Capital leases:                          |                    |                           |                    |                                       |
| Interest on bonds                        | 12 010             | 373                       | 34 838             | 135 390                               |
| Depreciation of fixed assets             | 47 421             | 56 781                    | 460 692            | 4 020 952                             |
| Loss (Gain) on disposal of fixed assets  |                    |                           | 3 014              | 10 946                                |
| Uniform purchases and rental             | 1 296              | (82)                      |                    | 938 190                               |
| Automotive equipment expenses            | 23 412             | 135                       |                    | 3 434 780                             |
| Office supplies                          | 35 967             | 55 735                    | 31 260             | 133 827                               |
| Doubtful accounts and collection charges |                    |                           |                    | 1 217 827                             |
| Doubtful accounts recovered              |                    |                           |                    | (56 042)                              |
| Insurance                                |                    | 99 840                    |                    |                                       |
| Interest and bank charges                | 35                 | 1 412                     | 3 425              | 951                                   |
| Other                                    | 9 428              | 122 837                   | 33 569             | 120 028                               |
| Expenditure recovery                     | (38 500)           |                           | (74 838)           | (25 000)                              |
|                                          | <u>\$2 668 507</u> | <u>\$7 030 364</u>        | <u>\$2 880 881</u> | <u>\$58 687 972</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.

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| Commu-<br>nications | Quality control<br>and medical<br>inspection | Specialized<br>interventions | Operation of<br>facilities | Total<br>2005       | Total<br>2004       |
|---------------------|----------------------------------------------|------------------------------|----------------------------|---------------------|---------------------|
| \$3 119 717         | \$366 680                                    | \$374 920                    |                            | \$37 629 367        | \$37 565 203        |
| 871 598             | 92 395                                       | 104 048                      |                            | 9 891 869           | 9 894 807           |
| 598 747             | 68 447                                       | 145 953                      |                            | 11 770 202          | 11 337 940          |
| 548                 |                                              | 19 835                       |                            | 1 949 600           | 1 935 504           |
| 2 430               | 2 757                                        | 175                          |                            | 179 306             | 208 667             |
| 1 132 475           | 4 064                                        | 105 281                      | \$239 140                  | 4 436 070           | 3 773 478           |
| 691 146             | 4 546                                        |                              |                            | 969 144             | 974 420             |
|                     |                                              |                              | 1 379 512                  | 2 897 332           | 2 991 634           |
| 267 384             |                                              |                              |                            | 284 723             | 283 110             |
| 1 801               |                                              |                              |                            | 184 412             | 351 679             |
| 40 118              |                                              | 5 357                        | 10 403                     | 4 641 724           | 5 758 138           |
|                     |                                              |                              |                            | 13 960              | 26 121              |
| 35 458              | (1 489)                                      | 9 514                        |                            | 982 887             | 533 175             |
|                     | 119                                          | 33 161                       |                            | 3 491 607           | 3 120 860           |
| 54 550              | 6 742                                        | 294                          |                            | 318 375             | 284 777             |
|                     |                                              |                              |                            | 1 217 827           | 1 374 256           |
|                     |                                              |                              |                            | (56 042)            | (60 830)            |
|                     |                                              |                              |                            | 99 840              | 97 660              |
|                     |                                              |                              | 109                        | 5 932               | 8 743               |
| 259 677             | 13 316                                       | 2 472                        | 32 982                     | 594 309             | 264 445             |
|                     | (442)                                        |                              |                            | (138 780)           | (153 796)           |
| <u>\$7 075 649</u>  | <u>\$557 135</u>                             | <u>\$801 010</u>             | <u>\$1 662 146</u>         | <u>\$81 363 664</u> | <u>\$80 569 991</u> |

**CORPORATION D'URGENCES-SANTÉ**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**6. SERVICES PURCHASED**

|                                                          | 2005               | 2004               |
|----------------------------------------------------------|--------------------|--------------------|
| Electronic data processing                               | \$107 706          | \$113 452          |
| Laundry                                                  | 300 973            | 213 484            |
| Maintenance and repairs - premises and equipment         | 1 352 479          | 1 265 221          |
| Maintenance and repairs - computer-aided dispatch system | 645 137            | 520 701            |
| Computer software updates                                | 253 378            | 366 337            |
| Training                                                 | 300 423            | 270 533            |
| Professional fees                                        | 1 060 457          | 676 736            |
| Business project                                         | 98 143             | 91 681             |
| Pre-hospital research project                            | 53 756             | 50 000             |
| Relocation of head office                                | 142 799            |                    |
| Process review                                           | 53 622             | 163 521            |
| Other                                                    | 67 197             | 41 812             |
|                                                          | <u>\$4 436 070</u> | <u>\$3 773 478</u> |

**7. ACCOUNTS RECEIVABLE**

|                                                   | 2005               | 2004               |
|---------------------------------------------------|--------------------|--------------------|
| Ambulance Service Beneficiaries                   |                    |                    |
| Health and social services institutions           | \$2 099 535        | \$2 390 469        |
| Société de l'assurance automobile du Québec       | 90 893             | 75 910             |
| Ministère de l'Emploi et de la Solidarité sociale | 478 229            | 344 119            |
| Individuals                                       | 2 927 046          | 2 787 297          |
| Other                                             | 29 965             | 27 504             |
|                                                   | <u>5 625 668</u>   | <u>5 625 299</u>   |
| Ministère de la Santé et des Services sociaux     |                    |                    |
| - subsidies                                       | 865 863            | 2 347 738          |
| Québec sales tax receivable                       | 258 220            | 219 237            |
| Other                                             | 763 954            | 1 000 303          |
|                                                   | <u>7 513 705</u>   | <u>9 192 577</u>   |
| Allowance for doubtful accounts                   |                    |                    |
| Individuals                                       | <u>(1 761 758)</u> | <u>(1 734 578)</u> |
|                                                   | <u>\$5 751 947</u> | <u>\$7 457 999</u> |

**8. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future. At March 31, 2005, the fair value of obligations resulting from capital lease contracts for \$2 330 882 was \$2 337 824, given the capitalization of cash flows at market rates for securities with similar maturity dates and interest rates.

**CORPORATION D'URGENCES-SANTÉ**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**9. FIXED ASSETS**

|                                        | 2005                |                          |                    | 2004               |
|----------------------------------------|---------------------|--------------------------|--------------------|--------------------|
|                                        | Cost                | Accumulated depreciation | Net                | Net                |
| Data processing equipment              | \$2 813 216         | \$2 429 080              | \$384 136          | \$737 221          |
| Furniture and equipment                | 4 924 927           | 3 996 662                | 928 265            | 1 485 924          |
| Automotive equipment                   | 7 486 364           | 7 264 574                | 221 790            | 1 091 289          |
| Computer-aided dispatch system         | 5 975 795           | 5 971 573                | 4 222              | 5 646              |
|                                        | <u>21 200 302</u>   | <u>19 661 889</u>        | <u>1 538 413</u>   | <u>3 320 080</u>   |
| Fixed assets held under capital leases |                     |                          |                    |                    |
| Automotive equipment                   | 5 774 558           | 4 529 383                | 1 245 175          | 3 287 285          |
| Equipment                              | 2 143 200           | 1 622 470                | 520 730            | 926 578            |
| Computer-aided dispatch system         | 42 043              | 4 528                    | 37 515             |                    |
|                                        | <u>7 959 801</u>    | <u>6 156 381</u>         | <u>1 803 420</u>   | <u>4 213 863</u>   |
|                                        | <u>\$29 160 103</u> | <u>\$25 818 270</u>      | <u>\$3 341 833</u> | <u>\$7 533 943</u> |

During the fiscal year, fixed assets were acquired for a total cost of \$463 574 (2004: \$1 086 335), including fixed assets in the amount of \$174 065 (2004: \$403 748) acquired through capital leases. A sum of \$278 449 (2004: \$346 507) in cash was paid for the purchase of fixed assets. An equipment purchase in the amount \$11 060 is due on March 31, 2005.

**10. AUTHORIZED CREDIT LINE**

The Ministère de la Santé et des Services sociaux authorizes the Corporation to borrow in keeping with its financing needs. As at March 31, 2005 and 2004, there was no authorized borrowing. Any Corporation borrowing contracted with its financial institution in the form of a credit line bears interest at the prime rate.

**11. COMMITMENTS UNDER CAPITAL LEASES**

|                                                          | 2005             | 2004               |
|----------------------------------------------------------|------------------|--------------------|
| Commitments under capital leases:                        |                  |                    |
| - rates varying from 3.53% to 7.00%, maturing until 2008 | \$2 330 882      | \$5 011 481        |
| Instalments due within one year                          | <u>2 025 603</u> | <u>2 818 691</u>   |
|                                                          | <u>\$305 279</u> | <u>\$2 192 790</u> |

**CORPORATION D'URGENCES-SANTÉ**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. COMMITMENTS UNDER CAPITAL LEASES (cont'd)**

The minimum payments required on commitments under capital leases are as follows:

|                                                                   |                           |
|-------------------------------------------------------------------|---------------------------|
| 2006                                                              | \$2 090 482               |
| 2007                                                              | 237 177                   |
| 2008                                                              | 78 450                    |
| Total minimum payments required                                   | <u>2 406 109</u>          |
| Amount of interest included in total<br>minimum payments required | <u>75 227</u>             |
|                                                                   | <u><u>\$2 330 882</u></u> |

**12. FUTURE FRINGE BENEFITS****Pensions plans**

With the exception of emergency medical technicians, the staff members of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death. The Corporation's contributions charged to the year-end statement amount to \$474 781 (2004: \$446 145).

The Corporation's emergency medical technicians participate in the supplemental pension plan for ambulance technicians in Québec (RRTAQ). This is a defined-contribution plan and does not provide vested benefits for past service. The Corporation's contributions charged to the year-end statement amount to \$1 605 171 (2004: \$1 363 571).

The liability of the Corporation towards these plans is restricted to its contributions as an employer.

**Provisions for vacation time, holidays and sick leave**

|                               | <u>Vacation time<br/>and holidays</u> | <u>Sick leave</u>  | <u>Total<br/>2005</u> | <u>Total<br/>2004</u> |
|-------------------------------|---------------------------------------|--------------------|-----------------------|-----------------------|
| Opening balance               | \$5 713 640                           | \$(76 733)         | \$5 636 907           | \$5 433 927           |
| Charges for the year          | 7 751 612                             | 1 897 150          | 9 648 762             | 9 556 959             |
| Benefits paid during the year | <u>(7 581 780)</u>                    | <u>(1 865 521)</u> | <u>(9 447 301)</u>    | <u>(9 353 979)</u>    |
| Closing balance               | <u>\$5 883 472</u>                    | <u>\$(45 104)</u>  | <u>\$5 838 368</u>    | <u>\$5 636 907</u>    |

**13. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded 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 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 are not shown separately in the financial statements.



**CORPORATION D'URGENCES-SANTÉ**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**14. COMMITMENTS**

The Corporation is committed to long-term contracts for office space and equipment and equipment maintenance expiring on various dates up to June 2012.

Payments for the year ended March 31, 2005, amount to \$2 872 946 (2004: \$3 750 832). The minimum payments for the coming fiscal years are as follows:

|                     |                     |
|---------------------|---------------------|
| 2006                | \$2 797 566         |
| 2007                | 2 061 227           |
| 2008                | 1 969 876           |
| 2009                | 1 936 843           |
| 2010                | 1 947 768           |
| 2011 and thereafter | 895 761             |
|                     | <u>\$11 609 041</u> |

## 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 out a total of US\$803 860, ending in 2008, for the implementation of a system of call prioritization to be used throughout Québec. The instalments, converted into Canadian dollars at March 31 2005, are as follows:

|      |                  |
|------|------------------|
| 2006 | \$353 680        |
| 2007 | 309 335          |
| 2008 | 309 335          |
|      | <u>\$972 350</u> |

**15. SUBSEQUENT EVENT**

On April 19, 2005, the Corporation's board of directors authorized the purchase 129 ambulances for \$16 376 000 over the coming three fiscal years.

**16. ADDITIONAL CASH FLOW INFORMATION**

|                 | <u>2005</u> | <u>2004</u> |
|-----------------|-------------|-------------|
| Interest paid   | \$190 344   | \$361 015   |
| Interest earned | 198 068     | 126 762     |

**CORPORATION D'URGENCES-SANTÉ**

## MANAGEMENT'S REPORT

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The financial statements of the Corporation d'urgences-santé were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The Board of Directors oversees the way in which management performs its financial reporting duties and has approved the financial statements. It is assisted by the audit committee, whose members are not part of management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Luc-André Gagnon  
President and Chief Executive Officer

Jean Girouard  
Director, Finance

Montréal, June 3, 2005

**CORPORATION D'URGENCES-SANTÉ****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Corporation d'urgences-santé as at March 31, 2005 and the statements of revenue and expenditure, surplus and cash flows for the year then ended. I have also audited the balance sheet of the Provincial Activities Fund, which is administered by the Corporation, as at March 31, 2005, and the statement of changes in fund balance for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation and the Provincial Activities Fund as at March 31, 2005 and the results of the operations and cash flows of the Corporation 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 General of Québec

Québec, June 3, 2005

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**  
(R.S.Q., c. C-81)

RESULTS OF ACCOUNTS ADMINISTERED  
for the year ended March 31, 2005

|                                                                 | Curatorships and tutorships |              | Unclaimed property |             | Total        | Total         |
|-----------------------------------------------------------------|-----------------------------|--------------|--------------------|-------------|--------------|---------------|
|                                                                 | 2005                        | 2004         | 2005               | 2004        | 2005         | 2004          |
| <b>REVENUE</b>                                                  |                             |              |                    |             |              |               |
| Employment assistance                                           | \$52 201 442                | \$50 520 292 | \$2 959            | \$595       | \$52 204 401 | \$50 520 887  |
| Old age pension                                                 | 41 757 551                  | 39 868 070   | 33 782             | 73 093      | 41 791 333   | 39 941 163    |
| Other pensions                                                  | 13 782 879                  | 11 863 726   | 8 191              | 8 213       | 13 791 070   | 11 871 939    |
| Régie des rentes du Québec                                      | 11 719 683                  | 10 664 785   | 18 727             | 11 077      | 11 738 410   | 10 675 862    |
| Tax credits                                                     | 4 652 266                   | 4 828 133    | 406 536            | 1 314 189   | 5 058 802    | 6 142 322     |
| Inheritance                                                     | 1 562 803                   | 1 088 678    | 140 861            | 11 490      | 1 703 664    | 1 100 168     |
| Société de l'assurance automobile du Québec                     | 1 341 585                   | 731 063      | 4 434              | 9 420       | 1 346 019    | 740 483       |
| Rent                                                            | 1 085 219                   | 1 130 343    | 50 815             | 21 843      | 1 136 034    | 1 152 186     |
| Insurance                                                       | 314 014                     | 71 861       | 43 784             | 4 692       | 357 798      | 76 553        |
| Interest and dividends                                          | 548 184                     | 493 379      | 40 322             | 61 635      | 588 506      | 555 014       |
| Compensation received from government agencies                  | 278 450                     | 1 339 957    |                    |             | 278 450      | 1 339 957     |
| Compensation for financial losses                               | 48 043                      | 235 620      | 24 171             | 35 274      | 72 214       | 270 894       |
| Compensation for disbursements linked to dams without operators |                             |              | 369 840            | 316 852     | 369 840      | 316 852       |
| Gain (loss) on disposal of investments                          | 78 621                      | 195 232      | (290 288)          | (1 132 008) | (211 667)    | (936 776)     |
| Other                                                           | 927 352                     | 960 111      | 726 776            | 776 963     | 1 654 128    | 1 737 074     |
|                                                                 | 130 298 092                 | 123 991 250  | 1 580 910          | 1 513 328   | 131 879 002  | 125 504 578   |
| <b>EXPENDITURE</b>                                              |                             |              |                    |             |              |               |
| Lodging and allowance for petty cash                            | 109 870 966                 | 105 571 697  | 1 706              | 3 439       | 109 872 672  | 105 575 136   |
| Medical expenses                                                | 3 983 335                   | 3 450 824    | (1 873)            | (182)       | 3 981 462    | 3 450 642     |
| Public Curator of Québec's fees                                 | 3 182 504                   | 1 409 472    | 919 517            | 977 743     | 4 102 021    | 2 387 215     |
| Funeral services                                                | 2 639 693                   | 1 955 974    | 17 557             | 35 676      | 2 657 250    | 1 991 650     |
| Income and taxes                                                | 1 956 930                   | 2 645 416    | 1 074 538          | 2 872 511   | 3 031 468    | 5 517 927     |
| Public services                                                 | 976 550                     | 859 828      | 2 846              | 4 171       | 979 396      | 863 999       |
| Legal costs                                                     | 854 508                     | 781 134      | 82 671             | 114 843     | 937 179      | 895 977       |
| Maintenance and repairs - buildings                             | 679 280                     | 542 425      | 39 546             | 12 662      | 718 826      | 555 087       |
| Insurance premiums                                              | 302 375                     | 406 604      | 81 943             | 30 603      | 384 318      | 437 207       |
| Maintenance and repairs - dams without operators                |                             |              | 369 840            | 316 852     | 369 840      | 316 852       |
| Interest expenses                                               | 55 118                      | 78 234       | 204                | 5 162       | 55 322       | 83 396        |
| Other expenses                                                  | 3 281 357                   | 3 666 527    | 1 785 550          | 1 722 052   | 5 066 907    | 5 388 579     |
|                                                                 | 127 782 616                 | 121 368 135  | 4 374 045          | 6 095 532   | 132 156 661  | 127 463 667   |
| <b>REVENUE BEFORE THE FOLLOWING ELEMENTS</b>                    |                             |              |                    |             |              |               |
| Amounts carried forward                                         | \$2 515 476                 | \$2 623 115  | \$(2 793 135)      | (4 582 204) | \$(277 659)  | \$(1 959 089) |

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)****RESULTS FOR ACCOUNTS ADMINISTERED**  
for the year ended March 31, 2005

|                                                                                                 | <u>Curatorships and tutorships</u> |                     | <u>Unclaimed property</u> |                      | <u>Total</u>        | <u>Total</u>        |
|-------------------------------------------------------------------------------------------------|------------------------------------|---------------------|---------------------------|----------------------|---------------------|---------------------|
|                                                                                                 | <u>2005</u>                        | <u>2004</u>         | <u>2005</u>               | <u>2004</u>          | <u>2005</u>         | <u>2004</u>         |
| <b>REVENUE BEFORE<br/>THE FOLLOWING<br/>ELEMENTS</b>                                            |                                    |                     |                           |                      |                     |                     |
| Amounts carried forward                                                                         | \$2 515 476                        | \$2 623 115         | \$(2 793 135)             | \$(4 582 204)        | \$(277 659)         | \$(1 959 089)       |
| Reassessment of assets                                                                          | 12 563 677                         | 6 812 153           | 1 887 355                 | 1 149 765            | 14 451 032          | 7 961 918           |
| Reassessment of liabilities                                                                     | (1 371 235)                        | (177 285)           | (2 301 258)               | (1 237 848)          | (3 672 493)         | (1 415 133)         |
| Realized income from<br>investment of common<br>trust funds (Note 6)                            | 5 876 339                          | 5 577 735           | 756 663                   | 1 150 500            | 6 633 002           | 6 728 235           |
| Variation in unrealized<br>gains (losses) on<br>investment of<br>common trust funds<br>(Note 7) | <u>547 772</u>                     | <u>10 873 354</u>   | <u>(12 180)</u>           | <u>38 328</u>        | <u>535 592</u>      | <u>10 911 682</u>   |
| <b>NET INCOME<br/>(NET LOSS)</b>                                                                | <u>\$20 132 029</u>                | <u>\$25 709 072</u> | <u>\$(2 462 555)</u>      | <u>\$(3 481 459)</u> | <u>\$17 669 474</u> | <u>\$22 227 613</u> |

The notes are an integral part of these financial statements.

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)****BALANCE SHEET FOR ACCOUNTS ADMINISTERED**  
as at March 31, 2005

|                                                   | <u>Curatorships and tutorships</u> |                      | <u>Unclaimed property</u> |                      | <u>Total</u>         | <u>Total</u>         |
|---------------------------------------------------|------------------------------------|----------------------|---------------------------|----------------------|----------------------|----------------------|
|                                                   | <u>2005</u>                        | <u>2004</u>          | <u>2005</u>               | <u>2004</u>          | <u>2005</u>          | <u>2004</u>          |
| <b>ASSETS</b>                                     |                                    |                      |                           |                      |                      |                      |
| Cash and term deposits                            | \$20 578 801                       | \$16 491 293         | \$579 089                 | \$920 425            | \$21 157 890         | \$17 411 718         |
| Shares                                            | 5 186 590                          | 4 173 463            | 3 144 664                 | 3 343 758            | 8 331 254            | 7 517 221            |
| Bonds                                             | 3 725 730                          | 3 804 408            | 996 527                   | 1 305 925            | 4 722 257            | 5 110 333            |
| Mutual                                            | 5 541 318                          | 4 710 423            | 6 036 158                 | 2 195 790            | 11 577 476           | 6 906 213            |
| RRSP, QSSP, RRIF                                  | 8 361 603                          | 7 320 498            | 1 971 815                 | 1 041 228            | 10 333 418           | 8 361 726            |
| Grouped fund investments<br>(Note 3)              | 167 256 744                        | 164 807 515          | 68 692 941                | 90 150 185           | 235 949 685          | 254 957 700          |
| Immoveables                                       | 30 227 275                         | 26 288 529           | 11 354 296                | 7 990 401            | 41 581 571           | 34 278 930           |
| Life insurance policy<br>buyback value            | 2 577 629                          | 2 277 953            |                           |                      | 2 577 629            | 2 277 953            |
| Prior arrangements for<br>funeral services        | 2 783 799                          | 2 628 498            |                           |                      | 2 783 799            | 2 628 498            |
| Notes and other receivables<br>(Note 4)           | 8 222 889                          | 5 102 269            | 174 859                   | 1 016 695            | 8 397 748            | 6 118 964            |
| Valuable objects and<br>property in storage       | 443 757                            | 566 324              | 67 597                    | 73 224               | 511 354              | 639 548              |
| Motor vehicles                                    | 321 915                            | 411 005              | 50 094                    | 98 830               | 372 009              | 509 835              |
| Mortgage loans (Note 4)                           | 372 376                            | 150 297              | 70 500                    | 80 500               | 442 876              | 230 797              |
| Other assets                                      | 70 077                             | 173 674              | 750                       |                      | 70 827               | 173 674              |
|                                                   | <u>\$255 670 503</u>               | <u>\$238 906 149</u> | <u>\$93 139 290</u>       | <u>\$108 216 961</u> | <u>\$348 809 793</u> | <u>\$347 123 110</u> |
| <b>LIABILITIES</b>                                |                                    |                      |                           |                      |                      |                      |
| Payables                                          | \$11 800 649                       | \$12 870 644         | \$58 568 731              | \$56 111 891         | \$70 369 380         | \$68 982 535         |
| Mortgage loans                                    | 1 038 094                          | 1 418 973            | 577 459                   | 1 085 337            | 1 615 553            | 2 504 310            |
| Grouped fund payables<br>(Note 5)                 | 1 202 206                          | 646 581              | 1 556 880                 | 683 264              | 2 759 086            | 1 329 845            |
| Deposits on offers to<br>purchase                 | 50 730                             | 77 060               | 60 183                    | 78 868               | 110 913              | 155 928              |
|                                                   | <u>14 091 679</u>                  | <u>15 013 258</u>    | <u>60 763 253</u>         | <u>57 959 360</u>    | <u>74 854 932</u>    | <u>72 972 618</u>    |
| <b>NETASSETS OF<br/>ACCOUNTS<br/>ADMINISTERED</b> |                                    |                      |                           |                      |                      |                      |
|                                                   | <u>241 578 824</u>                 | <u>223 892 891</u>   | <u>32 376 037</u>         | <u>50 257 601</u>    | <u>273 954 861</u>   | <u>274 150 492</u>   |
|                                                   | <u>\$255 670 503</u>               | <u>\$238 906 149</u> | <u>\$93 139 290</u>       | <u>\$108 216 961</u> | <u>\$348 809 793</u> | <u>\$347 123 110</u> |

**CONTINGENCIES (Note 10)**

The notes are an integral part of these financial statements.

Accepted and approved,

Nicole Malo  
Public Curator of Québec

**CURATEUR PUBLIC (LE) /PUBLIC CURATOR (THE)****CHANGE IN NET ASSETS OF ACCOUNTS ADMINISTERED  
for the year ended March 31, 2005**

|                                                                                                                   | <u>Curatorships and tutorships</u> |                             | <u>Unclaimed property</u>  |                            | <u>Total</u>                | <u>Total</u>                |
|-------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|
|                                                                                                                   | <u>2005</u>                        | <u>2004</u>                 | <u>2005</u>                | <u>2004</u>                | <u>2005</u>                 | <u>2004</u>                 |
| <b>OPENING BALANCE</b>                                                                                            | <u>\$223 892 891</u>               | <u>\$208 796 786</u>        | <u>\$50 257 601</u>        | <u>\$19 189 376</u>        | <u>\$274 150 492</u>        | <u>\$227 986 162</u>        |
| Net income (net loss)                                                                                             | <u>20 132 029</u>                  | <u>25 709 072</u>           | <u>(2 462 555)</u>         | <u>(3 481 459)</u>         | <u>17 669 474</u>           | <u>22 227 613</u>           |
| New assets                                                                                                        | 35 806 440                         | 27 303 192                  | 33 107 803                 | 58 455 431                 | 68 914 243                  | 85 758 623                  |
| New liabilities                                                                                                   | (5 530 642)                        | (5 704 141)                 | (20 165 475)               | (18 241 894)               | (25 696 117)                | (23 946 035)                |
| Remittance of property to heirs and assigns                                                                       | (25 627 726)                       | (28 758 478)                | (12 120 301)               | (8 795 810)                | (37 748 027)                | (37 554 288)                |
| Deletion and cancellation of certain liabilities                                                                  | 1 315 321                          | 1 587 421                   | 16 341 337                 | 12 224 542                 | 17 656 658                  | 13 811 963                  |
| Deletion and cancellation of certain assets                                                                       | (5 082 580)                        | (1 632 773)                 | (5 061 298)                | (3 328 553)                | (10 143 878)                | (4 961 326)                 |
| Transfer – unclaimed curatorship and tutorship accounts (Note 8)                                                  | (3 382 692)                        | (4 627 304)                 | 3 382 692                  | 4 627 304                  |                             |                             |
| Transfer of amounts from the liquidation of property under “Accounts payable to the Minister of Finance” (Note 9) | (54)                               | (3 392)                     | (40 190 647)               | (11 658 144)               | (40 190 701)                | (11 661 536)                |
| Transfer from “Account payable to the Minister of Finance”(Note 9)                                                | <u>55 837</u>                      | <u>1 222 508</u>            | <u>9 286 880</u>           | <u>1 266 808</u>           | <u>9 342 717</u>            | <u>2 489 316</u>            |
|                                                                                                                   | <u>(2 446 096)</u>                 | <u>(10 612 967)</u>         | <u>(15 419 009)</u>        | <u>34 549 684</u>          | <u>(17 865 105)</u>         | <u>23 936 717</u>           |
| <b>CLOSING BALANCE</b>                                                                                            | <u><u>\$241 578 824</u></u>        | <u><u>\$223 892 891</u></u> | <u><u>\$32 376 037</u></u> | <u><u>\$50 257 601</u></u> | <u><u>\$273 954 861</u></u> | <u><u>\$274 150 492</u></u> |

The notes are an integral part of these financial statements.

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**

NOTES TO FINANCIAL STATEMENTS  
as at March 31, 2005

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**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).

The Public Curator's main duties are:

- to represent persons of full age considered not competent to varying degrees, in order to ensure their moral and physical well-being and to protect their rights;
- to monitor, inform and assist in their administration private curators and tutors appointed to represent persons of full age who are not competent; to fulfil the same duties toward tutors for minors and occasionally assume that tutorship role for the property of minors;
- to assume the administration of certain unclaimed successions, the provisional administration of property without an owner, property belonging to persons unknown or untraceable, property abandoned either by dissolved legal persons or by the administrators of the property of others and, finally, property unclaimed by their lawful owners within the appropriate time.

The Public Curator receives fees for administering the property entrusted to it, monitoring private curatorships and tutorships, managing portfolios under joint administration and other duties conferred by the legislation.

**2. ACCOUNTING POLICIES**

The financial statements of the General Fund of the Public Curator were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The assets and liabilities administered for other are recorded when the Public Curator's jurisdiction is established and as their existence becomes known. The cash flow statement is not shown as it would not provide any useful additional information on the Fund's cash flow during the year.

The various assets and liabilities are valued as follows:

*Cash on hand and term deposits*

- Cash, including cash amounts of beneficiaries held on behalf of persons represented under curatorship or tutorship in health and social services establishments and term deposits at acquisition cost

*Shares*

- Shares, at the closing rate of the certified stock exchange where the corresponding security is most often bought and sold.

*Bonds*

- Bonds are evaluated at fair value based on the rates obtained from recognized stockbrokers.

*Mutual funds*

Mutual funds, at selling value.

*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*

- Fixed assets, at standardized property assessment value.

*Life insurance policy surrender value*

- The surrender 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's anniversary date and following when dividends receivable are cashed and borrowings repaid.



## CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

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### 2. ACCOUNTING POLICIES (cont'd)

#### *Prearranged funeral services*

- . Prearranged funeral services, at acquisition cost.

#### *Bills and other accounts receivable, automobiles, mortgage loans and other assets*

- . Bills and other accounts receivable, automobiles, mortgage loans and other assets, at net realizable value.

#### *Valuable objects and stored goods*

- . Valuable objects and stored goods are assessed at their realizable value at the beginning of jurisdiction.
- . the amount of moveables kept at a third party's and the home of the person represented are not posted. This property is of little value and cannot reasonably be assessed.

Where applicable, when the value of various assets 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.**

#### **Grouped fund investments**

Liquid assets and liquid asset equivalents managed collectively by the Public Curator are incorporated into four grouped funds: Cash Fund, Revenue Fund, Diversified Fund and Registered Retirement Plan 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 assessed according to the rates obtained from recognized stockbrokers;
- Securities listed on the stock market are assessed at market cost, i.e. the selling price at closing time of a certified stock market where the corresponding security is traded most.

The fluctuation in the fair value of grouped fund investments is recorded as an unrealized gain (loss) on investments.

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, it should be pointed out that the liabilities shown in this balance sheet represent those that the Public Curator administers and not the liabilities that he has the legal responsibility to pay.

Payables related to unclaimed property are recorded at the value at the beginning of jurisdiction and, subsequently, are reassessed at the time of final sale.

#### **Recording of results of operations of accounts administered**

The net investment income of the Cash Fund, after deduction of the amounts payable to the Minister of Finance, is credited monthly to curatorship and tutorship accounts and accounts of unclaimed property. The net income of the Revenue Fund is paid monthly into the Cash Fund of the account of each shareholder. The net income of Diversified Fund is reinvested quarterly in the account of each of the fund's shareholders.

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**2. ACCOUNTING POLICIES (cont'd)****Use of projections**

Preparing financial statements in keeping with the above-mentioned accounting policies requires that management make forecasts and assumptions regarding the declared amounts of assets and liabilities on the date the financial statements are drawn up as well as the amounts of revenue and expenditure declared during the period declared. Real results may differ from the best forecasts made by management as additional information later becomes available.

**3. GROUPED FUND INVESTMENTS**

|                                                                                       | Cash Fund            |                      | Revenue Fund        |                     |
|---------------------------------------------------------------------------------------|----------------------|----------------------|---------------------|---------------------|
|                                                                                       | 2005                 | 2004                 | 2005                | 2004                |
| <b>Short term</b>                                                                     |                      |                      |                     |                     |
| Cash on hand                                                                          | \$10 635 455         | \$39 187 213         | \$706 139           | \$683 157           |
| Short-term investments                                                                | 97 600 347           | 88 047 037           |                     |                     |
| Interest accrued on bonds and short-term investments and dividends receivable         | 524 794              | 486 498              | 397 425             | 318 484             |
| Receivable from the Revenue Fund, without interest or terms of repayment (Note 5)     |                      | 51 993               |                     |                     |
| Receivable from the Diversified Fund, without interest or terms of repayment (Note 5) |                      | 163 804              |                     |                     |
|                                                                                       | <u>108 760 596</u>   | <u>127 936 545</u>   | <u>1 103 564</u>    | <u>1 001 641</u>    |
| <b>Long term *</b>                                                                    |                      |                      |                     |                     |
| Bonds                                                                                 |                      |                      | 26 587 367          | 26 895 623          |
| Shares                                                                                |                      |                      | 1 482 568           | 1 573 675           |
| Mortgage certificates                                                                 |                      |                      | 28 069 935          | 28 469 298          |
|                                                                                       | <u>\$108 760 596</u> | <u>\$127 936 545</u> | <u>\$29 173 499</u> | <u>\$29 470 939</u> |

**BREAKDOWN OF  
GROUPED FUND INVESTMENTS****Accounts administered**

|                             |                      |                      |                     |                     |
|-----------------------------|----------------------|----------------------|---------------------|---------------------|
| Curatorships and tutorships | \$46 269 780         | \$43 922 590         | \$29 172 071        | \$29 198 448        |
| Unclaimed property          | 62 490 816           | 84 013 955           | 1 428               | 272 491             |
|                             | <u>\$108 760 596</u> | <u>\$127 936 545</u> | <u>\$29 173 499</u> | <u>\$29 470 939</u> |

\* Long-term investments at March 31, 2005

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| Diversified Fund                      |                                       | Registered Retirement Plan Fund |                     | Total                                 |                                       |
|---------------------------------------|---------------------------------------|---------------------------------|---------------------|---------------------------------------|---------------------------------------|
| 2005                                  | 2004                                  | 2005                            | 2004                | 2005                                  | 2004                                  |
| \$1 834 558                           | \$1 409 997                           | \$47 920<br>149 441             | \$16 073<br>372 231 | \$13 224 072<br>97 749 788            | \$41 296 440<br>88 419 268            |
| 927 176                               | 759 027                               | 40 987                          | 26 273              | 1 890 382                             | 1 590 282                             |
|                                       |                                       |                                 |                     |                                       | 51 993                                |
|                                       |                                       |                                 |                     |                                       | 163 804                               |
| 2 761 734                             | 2 169 024                             | 238 348                         | 414 577             | 112 864 242                           | 131 521 787                           |
| 49 342 931<br>37 095 048<br>2 615 180 | 52 553 421<br>34 235 498<br>2 760 074 | 5 962 349                       | 5 417 622           | 81 892 647<br>37 095 048<br>4 097 748 | 84 866 666<br>34 235 498<br>4 333 749 |
| 89 053 159                            | 89 548 993                            | 5 962 349                       | 5 417 622           | 123 085 443                           | 123 435 913                           |
| <u>\$91 814 893</u>                   | <u>\$91 718 017</u>                   | <u>\$6 200 697</u>              | <u>\$5 832 199</u>  | <u>\$235 949 685</u>                  | <u>\$254 957 700</u>                  |
| \$91 814 893                          | \$91 686 477<br>31 540                | \$6 200 697                     | \$5 832 199         | \$167 256 744<br>68 692 941           | \$164 807 515<br>90 150 185           |
| <u>\$91 814 893</u>                   | <u>\$91 718 017</u>                   | <u>\$6 200 697</u>              | <u>\$5 832 199</u>  | <u>\$235 949 685</u>                  | <u>\$254 957 700</u>                  |

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**3. GROUPED FUND INVESTMENTS (cont'd)****\* Long-term investment at March 31, 2005**

|                             | <u>Terms</u>                | <u>Interest rates</u>       |
|-----------------------------|-----------------------------|-----------------------------|
| Federal government bonds    | 2 - 25 years                | 3% - 5.75%                  |
| Provincial government bonds | 1 - 39 years                | 2.68% - 7.75%               |
| Corporate bonds             | 4 - 29 years                | 4.65% - 7%                  |
| Corporate shares            |                             |                             |
|                             | <u>                    </u> | <u>                    </u> |
|                             | <u>                    </u> | <u>                    </u> |

Short-term investments include T-bills, discount notes and bankers' acceptances. Interest rates vary from 2.58% to 2.89%.

These investments mature at varying dates until July 2005.

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 deem himself to be exposed to major credit risk since investments are invested in various government securities and bonds and shares of many major Canadian companies.

**4. BILLS AND OTHER RECEIVABLES – MORTGAGE LOANS**

A provision for bad debts of \$4 764 534 (\$4 013 645 in 2004) was deducted from the balance of bills and other receivables and mortgage loans.

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| Cash Fund | Revenue Fund | Diversified Fund | Registered<br>Retirement<br>Plan Fund | Total         |
|-----------|--------------|------------------|---------------------------------------|---------------|
| 2005      | 2005         | 2005             | 2005                                  | 2005          |
|           | \$6 880 500  | \$12 892 971     | \$3 006 471                           | \$22 779 942  |
|           | 14 874 763   | 28 414 515       | 2 955 878                             | 46 245 156    |
|           | 6 314 672    | 10 650 625       |                                       | 16 965 297    |
|           |              | 37 095 048       |                                       | 37 095 048    |
|           | \$28 069 935 | \$89 053 159     | \$5 962 349                           | \$123 085 443 |

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**5. GROUPED FUND PAYABLES**

|                                                                                  | Cash Fund          |                    | Revenue Fund    |                 |
|----------------------------------------------------------------------------------|--------------------|--------------------|-----------------|-----------------|
|                                                                                  | 2005               | 2004               | 2005            | 2004            |
| Accounts payable                                                                 | \$214 906          | \$192 478          | \$19 689        | \$22 005        |
| Owed to the Consolidated Revenue Fund,<br>without interest or terms of repayment | 873 991            | 477 940            |                 |                 |
| Owed to the Cash Fund, without interest<br>or terms of repayment (Note 3)        |                    |                    |                 | 51 993          |
| Accounts payable to the Minister of Finance                                      | 1 571 860          | 355 236            |                 |                 |
|                                                                                  | <u>\$2 660 757</u> | <u>\$1 025 654</u> | <u>\$19 689</u> | <u>\$73 998</u> |

**BREAOKDOWN OF  
GROUPED FUND PAYABLES****Accounts administered**

|                             |                    |                    |                 |                 |
|-----------------------------|--------------------|--------------------|-----------------|-----------------|
| Curatorships and tutorships | \$1 131 960        | \$352 123          | \$19 688        | \$73 314        |
| Unclaimed property          | 1 528 797          | 673 531            | 1               | 684             |
|                             | <u>\$2 660 757</u> | <u>\$1 025 654</u> | <u>\$19 689</u> | <u>\$73 998</u> |

**6. REALIZED GROUPED FUND INVESTMENT INCOME**

|                                                 | Cash Fund          |                    | Revenue Fund     |                    |
|-------------------------------------------------|--------------------|--------------------|------------------|--------------------|
|                                                 | 2005               | 2004               | 2005             | 2004               |
| <b>Revenue</b>                                  |                    |                    |                  |                    |
| Interest on bonds and short-term investments    | \$2 856 023        | \$2 912 224        | \$1 656 461      | \$1 757 493        |
| Dividends                                       |                    |                    |                  |                    |
| Gains (losses) on disposal of investments       |                    |                    | (135 243)        | 211 972            |
|                                                 | <u>2 856 023</u>   | <u>2 912 224</u>   | <u>1 521 218</u> | <u>1 969 465</u>   |
| <b>Expenditure</b>                              |                    |                    |                  |                    |
| Administrative fees –Consolidated Revenue Fund  | 1 391 026          | 744 275            | 592 168          | 595 920            |
| Fund managers' fees                             |                    |                    |                  |                    |
| Taxes on administrative fees and other expenses | 211 100            | 115 579            | 88 973           | 89 537             |
| Daycare costs and other services                | 108 521            | 107 018            | 43 981           | 45 929             |
|                                                 | <u>1 710 647</u>   | <u>966 872</u>     | <u>725 122</u>   | <u>731 386</u>     |
| <b>Realized investment income</b>               | <u>\$1 145 376</u> | <u>\$1 945 352</u> | <u>\$796 096</u> | <u>\$1 238 079</u> |

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| Diversified Fund   |                    | Registered Retirement Plan Fund |                 | Total              |                    |
|--------------------|--------------------|---------------------------------|-----------------|--------------------|--------------------|
| 2005               | 2004               | 2005                            | 2004            | 2005               | 2004               |
| \$50 558           | \$57 416           | \$28 082                        | \$8 973         | \$313 235          | \$280 872          |
|                    |                    |                                 |                 | 873 991            | 477 940            |
|                    | 163 804            |                                 |                 |                    | 215 797            |
|                    |                    |                                 |                 | 1 571 860          | 355 236            |
| <u>\$50 558</u>    | <u>\$221 220</u>   | <u>\$28 082</u>                 | <u>\$8 973</u>  | <u>\$2 759 086</u> | <u>\$1 329 845</u> |
|                    |                    |                                 |                 |                    |                    |
| \$50 558           | \$221 144          |                                 |                 | \$1 202 206        | \$646 581          |
|                    | 76                 | \$28 082                        | \$8 973         | 1 556 880          | 683 264            |
| <u>\$50 558</u>    | <u>\$221 220</u>   | <u>\$28 082</u>                 | <u>\$8 973</u>  | <u>\$2 759 086</u> | <u>\$1 329 845</u> |
|                    |                    |                                 |                 |                    |                    |
| Diversified Fund   |                    | Registered Retirement Plan Fund |                 | Total              |                    |
| 2005               | 2004               | 2005                            | 2004            | 2005               | 2004               |
| \$3 125 298        | \$3 060 390        | \$164 975                       | \$162 614       | \$7 802 757        | \$7 892 721        |
| 531 089            | 514 858            |                                 |                 | 531 089            | 514 858            |
| 3 183 187          | 2 025 608          | 822                             | (8 365)         | 3 048 766          | 2 229 215          |
| <u>6 839 574</u>   | <u>5 600 856</u>   | <u>165 797</u>                  | <u>154 249</u>  | <u>11 382 612</u>  | <u>10 636 794</u>  |
|                    |                    |                                 |                 |                    |                    |
| 1 811 166          | 1 727 870          | 77 192                          | 39 507          | 3 871 552          | 3 107 572          |
|                    |                    | 23 664                          | 47 909          | 23 664             | 47 909             |
| 272 128            | 259 613            | 5 403                           | 2 765           | 577 604            | 467 494            |
| 84 423             | 105 716            | 12 772                          | 12 264          | 249 697            | 270 927            |
| <u>2 167 717</u>   | <u>2 093 199</u>   | <u>119 031</u>                  | <u>102 445</u>  | <u>4 722 517</u>   | <u>3 893 902</u>   |
| <u>\$4 671 857</u> | <u>\$3 507 657</u> | <u>\$46 766</u>                 | <u>\$51 804</u> | <u>\$6 660 095</u> | <u>\$6 742 892</u> |

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**6. REALIZED GROUPED FUND INVESTMENT INCOME (cont'd)****BREAKDOWN OF REALIZED INVESTMENT INCOME**

|                                     | Cash Fund          |                    | Revenue Fund     |                    |
|-------------------------------------|--------------------|--------------------|------------------|--------------------|
|                                     | 2005               | 2004               | 2005             | 2004               |
| <b>Accounts administered</b>        |                    |                    |                  |                    |
| Curatorships and tutorships         | \$412 101          | \$838 408          | \$792 381        | \$1 232 555        |
| Unclaimed property                  | 706 182            | 1 092 287          | 3 715            | 5 524              |
|                                     | <u>1 118 283</u>   | <u>1 930 695</u>   | <u>796 096</u>   | <u>1 238 079</u>   |
| <b>Minister of Finance (Note 9)</b> | <u>27 093</u>      | <u>14 657</u>      |                  |                    |
|                                     | <u>\$1 145 376</u> | <u>\$1 945 352</u> | <u>\$796 096</u> | <u>\$1 238 079</u> |

**7. CHANGE IN UNREALIZED GROUPED FUND INVESTMENT GAINS (LOSSES)**

|                                                                                                                    | Revenue Fund     |                  |
|--------------------------------------------------------------------------------------------------------------------|------------------|------------------|
|                                                                                                                    | 2005             | 2004             |
| Unrealized cumulative investment gains (losses)<br>at the beginning of the fiscal year                             | \$604 885        | \$(259 648)      |
| Change in unrealized investment gains (losses) resulting from<br>fluctuations in fair value during the fiscal year | <u>(395 879)</u> | <u>864 533</u>   |
| Unrealized cumulative investment gains (losses)<br>at the end of the fiscal year                                   | <u>\$209 006</u> | <u>\$604 885</u> |
| Cost of bonds                                                                                                      | \$26 366 020     | \$26 349 922     |
| Cost of shares                                                                                                     |                  |                  |
| Cost of mortgage certificates                                                                                      | \$1 450 810      | \$1 514 493      |

**8. TRANSFER OF CURATORSHIP AND TUTORSHIP ACCOUNTS TO UNCLAIMED PROPERTY**

The account balances of persons who died without heirs are transferred to unclaimed property six months after their death.



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| Diversified Fund   |                    | Registered Retirement Plan Fund |                 | Total              |                    |
|--------------------|--------------------|---------------------------------|-----------------|--------------------|--------------------|
| 2005               | 2004               | 2005                            | 2004            | 2005               | 2004               |
| \$4 671 857        | \$3 506 772        |                                 |                 | \$5 876 339        | \$5 577 735        |
|                    | 885                | \$46 766                        | \$51 804        | 756 663            | 1 150 500          |
| 4 671 857          | 3 507 657          | 46 766                          | 51 804          | 6 633 002          | 6 728 235          |
|                    |                    |                                 |                 | 27 093             | 14 657             |
| <u>\$4 671 857</u> | <u>\$3 507 657</u> | <u>\$46 766</u>                 | <u>\$51 804</u> | <u>\$6 660 095</u> | <u>\$6 742 892</u> |

  

| Diversified Fund    |                    | Registered Retirement Plan Fund |                 | Total               |                    |
|---------------------|--------------------|---------------------------------|-----------------|---------------------|--------------------|
| 2005                | 2004               | 2005                            | 2004            | 2005                | 2004               |
| \$9 062 927         | \$(952 278)        | \$14 051                        | \$(17 893)      | \$9 681 863         | \$(1 229 819)      |
| 941 804             | 10 015 205         | (10 333)                        | 31 944          | 535 592             | 10 911 682         |
| <u>\$10 004 731</u> | <u>\$9 062 927</u> | <u>\$3 718</u>                  | <u>\$14 051</u> | <u>\$10 217 455</u> | <u>\$9 681 863</u> |

  

|              |              |             |             |              |              |
|--------------|--------------|-------------|-------------|--------------|--------------|
| \$48 059 980 | \$51 060 155 | \$5 958 631 | \$5 403 570 | \$80 384 631 | \$82 813 647 |
| \$28 484 141 | \$26 777 022 |             |             | \$28 484 141 | \$26 777 022 |
| \$2 548 406  | \$2 648 890  |             |             | \$3 999 216  | \$4 163 383  |

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

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**9. ACCOUNTS PAYABLE TO THE MINISTER OF FINANCE**

In the absence of an administrative beneficiary, and in all cases where property is administered on behalf of the State, the amounts generated by the liquidation of goods must be remitted to the Minister of Finance. These amounts are presented as accounts payable to the Minister of Finance until they have been remitted by the Public Curator.

When beneficiaries are entitled to recover the amounts remitted to the Minister of Finance, the amounts to be remitted plus interest as stipulated in the Act are recorded as a reduction in the accounts payable to the Minister of Finance.

**10. CONTINGENCIES**

Various legal and non-legal business involving the Public Curator is currently under way. The Public Curator cannot foresee the outcome of these disputes or estimate the value of financial compensation that might result.

**11. SUBSEQUENT EVENT**

Bill 120, the Act to abolish certain public bodies and transfer administrative responsibilities presented on June 15, 2005 in the National Assembly provides for the transfer of responsibility for the temporary administration of property to the Minister of Revenue as of April 1, 2006. This property corresponds to the unclaimed property administered by the Public Curator.

**12. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)****MANAGEMENT'S REPORT**

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The financial statements of the Public Curator of Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Public Curator acknowledges that he is responsible for managing his affairs in keeping with the statutes and regulations governing him.

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.

The Auditor General of Québec has audited the Public Curator's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Nicole Malo  
Public Curator of Québec

Monique Daigle  
Director, General of Administration

Pierre Roy  
Director, Financial and Material Resources

Montréal, December 2, 2005

**CURATEUR PUBLIC (LE) / PUBLIC CURATOR (THE)****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Public Curator of Québec as at March 31, 2005, the statement of results and statement of change in net assets of accounts administered for the year then ended. These financial statements are the responsibility of the Public Curator. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Public Curator's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, December 2, 2005

**ÉCOLE NATIONALE DE POLICE DU QUÉBEC**  
(R.S.Q., c. P-13.1)

**REVENUE AND EXPENDITURE AND EQUITY**  
for the year ended June 30, 2004

|                                                 | <u>2004</u>             | <u>2003</u>             |
|-------------------------------------------------|-------------------------|-------------------------|
| <b>REVENUE</b>                                  |                         |                         |
| Police force contributions (Note 12)            | \$9 131 417             | \$8 397 141             |
| Gouvernement du Québec subsidy (Note 3)         |                         |                         |
| Rent                                            | 7 458 025               | 3 100 000               |
| Other                                           | 28 893                  | 253 600                 |
| Lodging (Notes 4 and 12)                        | 3 459 076               | 2 890 984               |
| Training (Notes 4 and 12))                      | 4 694 317               | 4 282 792               |
| Interest                                        | 22 984                  | 39 531                  |
| Other                                           | 127 900                 | 42 303                  |
|                                                 | <u>24 922 612</u>       | <u>19 006 351</u>       |
| <b>EXPENDITURE</b>                              |                         |                         |
| Salaries and fringe benefits (Note 5)           | 13 228 401              | 12 254 861              |
| Transportation and communications               | 663 230                 | 589 577                 |
| Professional services                           | 838 140                 | 666 871                 |
| Maintenance and repairs                         | 174 907                 | 159 558                 |
| Rent – Société immobilière du Québec            | 7 476 906               | 3 221 987               |
| Rental of lodgings and other                    | 270 943                 | 157 554                 |
| Material, teaching materials and other (Note 6) | 1 423 977               | 1 390 140               |
| Depreciation of fixed assets                    | 899 945                 | 673 632                 |
|                                                 | <u>24 976 449</u>       | <u>19 114 180</u>       |
| <b>EXCESS EXPENDITURE OVER REVENUE</b>          | (53 837)                | (107 829)               |
| <b>EQUITY, BEGINNING OF YEAR</b>                | <u>830 986</u>          | <u>938 815</u>          |
| <b>EQUITY, END OF YEAR</b>                      | <u><u>\$777 149</u></u> | <u><u>\$830 986</u></u> |

## ÉCOLE NATIONALE DE POLICE DU QUÉBEC

BALANCE SHEET  
as at June 30, 2004

|                                              | 2004                | 2003                |
|----------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                |                     |                     |
| <b>Current assets</b>                        |                     |                     |
| Cash on hand                                 | \$3 585 587         | \$3 321 522         |
| Accounts receivable (Note 12)                | 2 142 397           | 2 016 488           |
| Police force contribution receivable         |                     |                     |
| First instalment                             | 183 398             |                     |
| Second instalment                            | 2 772 853           | 2 774 732           |
| Gouvernement du Québec subsidies receivable  |                     |                     |
| Rent                                         | 1 858 025           |                     |
| Research project                             | 6 495               |                     |
| Prepaid rent - Société immobilière du Québec |                     | 668 176             |
| Inventory                                    | 466 497             | 414 950             |
|                                              | <u>11 015 252</u>   | <u>9 195 868</u>    |
| Fixed assets (Note 7)                        | <u>3 220 132</u>    | <u>2 458 362</u>    |
|                                              | <u>\$14 235 384</u> | <u>\$11 654 230</u> |
| <b>LIABILITIES</b>                           |                     |                     |
| <b>Current liabilities</b>                   |                     |                     |
| Borrowing from Financing Fund (Note 8)       | \$1 831 296         |                     |
| Accounts payable and accruals                |                     |                     |
| Wages                                        | 591 996             | \$528 800           |
| Rent – Société immobilière du Québec         | 900 977             |                     |
| Other                                        | 1 528 532           | 1 798 723           |
| Provision for vacation time                  | 711 633             | 647 131             |
| Deferred revenue (Note 9)                    |                     |                     |
| Police force contributions                   | 6 833 029           | 6 853 741           |
| Other                                        | 310 750             | 299 829             |
|                                              | <u>12 708 213</u>   | <u>10 128 224</u>   |
| <b>Long term liabilities</b>                 |                     |                     |
| Provision for sick leave (Note 10)           | <u>750 022</u>      | <u>695 020</u>      |
|                                              | 13 458 235          | 10 823 244          |
| <b>EQUITY</b>                                | <u>777 149</u>      | <u>830 986</u>      |
|                                              | <u>\$14 235 384</u> | <u>\$11 654 230</u> |

**COMMITMENTS** (Note 11)

For the Board of Directors,  
Robert Nelson, Chairman, Board of Directors  
Louise Gagnon-Gaudreau, Director General

## ÉCOLE NATIONALE DE POLICE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS June 30, 2004

#### 1. CONSTITUTION AND PURPOSE

The École nationale de police du Québec (the École) is a government agent established by the Police Act (R.S.Q., c. P-13.1). The mission of the École, as a preferred venue for deliberating on and integrating activities related to police training, is to ensure that this training is relevant, of high quality and coherent.

Under federal and provincial income tax legislation, the École is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial policies of the École were prepared by management on an accrual basis in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the École's cash flow during the year.

##### Inventory

Office supplies, food items, ammunition and clothing are valued according to the specific identification method.

##### Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following periods:

|                                 |                |
|---------------------------------|----------------|
| Furniture and equipment         | 5 and 10 years |
| Automotive equipment            | 5 years        |
| Leasehold improvements          | 5 years        |
| Computer equipment and software | 3 and 5 years  |

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the École lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 3. GOUVERNEMENT DU QUÉBEC SUBSIDIES

|                                                | 2004               | 2003               |
|------------------------------------------------|--------------------|--------------------|
| Subsidy for lodging expenditures               | \$7 458 025        | \$3 100 000        |
| Compensation following a fire in the gun range |                    | 253 600            |
| Research projects                              | 28 893             |                    |
|                                                | <u>\$7 486 918</u> | <u>\$3 353 600</u> |

## ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**4. LODGING AND TRAINING**

|                                        | Lodging            |                    | Training           |                    |
|----------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                        | 2004               | 2003               | 2004               | 2003               |
| Rookie training                        | \$1 708 982        | \$1 552 225        | \$1 945 234        | \$1791 046         |
| Police officer training                | 776 079            | 739 966            | 837 612            | 769 434            |
| Native training                        | 162 375            | 255 696            | 553 274            | 697 978            |
| Customized training                    | 203 480            | 47 150             | 760 081            | 418 116            |
| Assessment centre for police personnel | 38 992             | 39 504             | 598 116            | 606 218            |
| Other                                  | 569 168            | 256 443            |                    |                    |
|                                        | <u>\$3 459 076</u> | <u>\$2 890 984</u> | <u>\$4 694 317</u> | <u>\$4 282 792</u> |

**5. SALARIES AND FRINGE BENEFITS**

|                                    | 2004                | 2003                |
|------------------------------------|---------------------|---------------------|
| Police officers – Sûreté du Québec | \$652 615           | \$577 709           |
| Municipal police officers          | 1 209 308           | 1 277 512           |
| Instructors and lecturers          | 487 669             | 531 859             |
| Other employees                    | 10 878 809          | 9 867 781           |
|                                    | <u>\$13 228 401</u> | <u>\$12 254 861</u> |

**6. MATERIAL, TEACHING MATERIALS AND OTHER**

|                                          | 2004               | 2003               |
|------------------------------------------|--------------------|--------------------|
| Teaching materials                       | \$628 054          | \$653 456          |
| Foodstuffs and dwelling                  | 509 331            | 513 797            |
| Stationery, office supplies and articles | 204 738            | 177 978            |
| Furniture and equipment                  | 81 854             | 44 909             |
|                                          | <u>\$1 423 977</u> | <u>\$1 390 140</u> |

**7. FIXED ASSETS**

|                                 | 2004               |                          | 2003               |
|---------------------------------|--------------------|--------------------------|--------------------|
|                                 | Cost               | Accumulated depreciation | Net                |
| Furniture and equipment         | \$3 341 407        | \$1 502 060              | \$1 839 347        |
| Automotive equipment            | 1 249 250          | 785 537                  | 463 713            |
| Leasehold improvements          | 723 230            | 585 217                  | 138 013            |
| Computer equipment and software | 1 918 759          | 1 139 700                | 779 059            |
|                                 | <u>\$7 232 646</u> | <u>\$4 012 514</u>       | <u>\$3 220 132</u> |
|                                 |                    |                          | <u>\$2 458 362</u> |

Acquisitions of fixed assets totalled \$1 661 715 (2003: \$1 901 805). The disposal of fixed assets generated gains of \$5 789 (2003: gains of \$4 602) and proceeds of \$5 789 (2003: \$4 602).



## ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

### 8. SHORT-TERM BORROWING

The École is authorized to contract short-term borrowings or borrow on credit to a maximum of \$5 000 000, until June 30, 2007, at variable or fixed rates not exceeding the prime rate, from financial institutions or the Gouvernement du Québec Financing Fund. At June 30, 2004, the École had contracted a borrowing with the Financing Fund of the Gouvernement du Québec bearing interest at a rate of 2.35%.

### 9. DEFERRED REVENUE

The revenue deferred in relation to police force contributions represents the portion of the total contribution that will be earned in the following fiscal year.

Other deferred revenue comprises primarily dwelling income received in advance for the basic police-training program.

### 10. FUTURE FRINGE BENEFITS

#### Pension Plans

The staff members of the École participate in the Pension Plan for Senior Official (PPSO), Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ) or Pension of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The École assumes employer contributions for members of its staff who were released by the Sûreté du Québec and who contribute to the SPMSQ. Employer contributions assumed by the École and charged to the year-end statement amount to \$398 384 (2003: \$355 281). The École's liability towards these Government plans is restricted to its contributions as an employer.

#### Provision for sick leave

|                               | 2004             | 2003             |
|-------------------------------|------------------|------------------|
| Opening balance               | \$695 020        | \$598 183        |
| Expenditure for the year      | 239 018          | 204 950          |
| Benefits paid during the year | <u>(184 016)</u> | <u>(108 113)</u> |
| Closing balance               | <u>\$750 022</u> | <u>\$695 020</u> |

### 11. COMMITMENTS

The École is committed with the Société immobilière du Québec, under long-term leases terminating in 2028, to rent buildings and, under operating leases terminating in 2007, to rent goods and services.

The fiscal year's expenditure for building rental is \$7 476 906 (2003: \$3 221 987) and for goods and services rental related to these commitments is \$113 805 (2003: \$94 484). Minimum future payments are as follows:

| Year                | Buildings            | Goods and services |
|---------------------|----------------------|--------------------|
| 2005                | \$7 772 874          | \$51 843           |
| 2006                | 7 772 874            | 51 843             |
| 2007                | 7 772 874            | 38 883             |
| 2008                | 7 772 874            |                    |
| 2009                | 7 772 874            |                    |
| 2010 and thereafter | <u>150 284 606</u>   |                    |
|                     | <u>\$189 148 976</u> | <u>\$142 569</u>   |

**ÉCOLE NATIONALE DE POLICE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**12. RELATED PARTY TRANSACTIONS**

|                            | <u>2004</u> | <u>2003</u> |
|----------------------------|-------------|-------------|
| Revenue                    |             |             |
| Police force contributions | \$3 585 916 | \$3 904 998 |
| Lodging                    | 674 236     | 480 022     |
| Training                   | 941 946     | 818 956     |
| Accounts receivable        | 713 895     | 741 569     |

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the École 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 École 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.

**13. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value.

**14. COMPARATIVE FIGURES**

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

## ÉCOLE NATIONALE DE POLICE DU QUÉBEC

### MANAGEMENT'S REPORT

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The financial statements of the École nationale de police du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors, through its audit committee, must oversee the way in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the École's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Louise Gagnon-Gaudreau  
Director General

Daniel Jean, CMA  
Director of Administrative Affairs

Nicolet, September 2, 2004

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### AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the École nationale de police du Québec as at June 30, 2004 and the statements of revenue and expenditure and of equity for the year then ended. These financial statements are the responsibility of École management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the École's financial position as at June 30, 2004 and the results of its operations and the cash flows 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 General of Québec

Québec, September 2, 2004

**ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC**  
(R.S.Q., c. S-3.4)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended June 30, 2004

|                                                         | <u>2004</u>      | <u>2003</u>      |
|---------------------------------------------------------|------------------|------------------|
| <b>REVENUE</b>                                          |                  |                  |
| Gouvernement du Québec subsidy                          | \$1 183 800      | \$1 200 000      |
| Training                                                | 116 070          |                  |
| Interest                                                | <u>13 179</u>    | <u>19 297</u>    |
|                                                         | <u>1 313 049</u> | <u>1 219 297</u> |
| <b>EXPENDITURE</b>                                      |                  |                  |
| Salaries and fringe benefits                            | 985 220          | 599 140          |
| Travel costs                                            | 54 959           | 60 497           |
| Communication                                           | 21 222           | 11 001           |
| Professional services                                   | 73 480           | 122 615          |
| Advertising and promotion                               | 35 275           | 81 482           |
| Rent                                                    | 112 680          | 107 469          |
| Development of training programs and teaching materials | 83 787           | 50 590           |
| Furniture and supplies                                  | 97 082           | 74 314           |
| Financial charges                                       | 1 895            | 2 261            |
| Depreciation of fixed assets                            | <u>124 372</u>   | <u>92 426</u>    |
|                                                         | <u>1 589 972</u> | <u>1 201 795</u> |
| <b>EXCESS EXPENDITURE OVER REVENUE</b>                  | (276 923)        | 17 502           |
| <b>SURPLUS, BEGINNING OF YEAR</b>                       | <u>482 605</u>   | <u>465 103</u>   |
| <b>SURPLUS, END OF YEAR</b>                             | <u>\$205 682</u> | <u>\$482 605</u> |

## ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

BALANCE SHEET  
as at June 30, 2004

|                               | <u>2004</u>             | <u>2003</u>             |
|-------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                 |                         |                         |
| <b>Current assets</b>         |                         |                         |
| Cash on hand                  | \$42 769                | \$229 197               |
| Accounts receivable           | 16 857                  | 2 262                   |
| Prepaid expenses              | <u>10 734</u>           | <u>29 882</u>           |
|                               | 70 360                  | 261 341                 |
| <b>Fixed assets</b> (Note 3)  | <u>266 122</u>          | <u>279 690</u>          |
|                               | <u><u>\$336 482</u></u> | <u><u>\$541 031</u></u> |
| <b>LIABILITIES</b>            |                         |                         |
| <b>Current liabilities</b>    |                         |                         |
| Accounts payable and accruals | \$130 800               | \$58 426                |
| <b>SURPLUS</b>                | <u>205 682</u>          | <u>482 605</u>          |
|                               | <u><u>\$336 482</u></u> | <u><u>\$541 031</u></u> |

On behalf of the Board of Directors,  
 Denis Racicot  
 Chairman, Board of Directors

## ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS June 30, 2004

#### 1. CONSTITUTION AND PURPOSE

The École nationale des pompiers du Québec is a legal person, incorporated on September 1, 2000 and governed by the Fire Safety Act (R.S.Q., c. S-3.4). The mission of the school is to ensure that firefighters and other municipal fire safety personnel in Québec receive pertinent, high-quality and coherent qualifying professional fire safety training.

Under its incorporating legislation, the École nationale des pompiers du Québec is an agent of the Gouvernement du Québec and, as such, not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the École were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the École's cash flow during the year.

##### Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

|                                 |         |
|---------------------------------|---------|
| Leasehold improvements          | 20%     |
| Computer equipment and software | 33 1/3% |
| Furniture and equipment         | 20%     |
| Other equipment                 | 33 1/3% |

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the École lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 3. FIXED ASSETS

|                                 | 2004             |                          | 2003             |
|---------------------------------|------------------|--------------------------|------------------|
|                                 | Cost             | Accumulated depreciation | Net Value        |
| Leasehold improvements          | \$211 245        | \$128 103                | \$110 078        |
| Computer equipment and software | 193 769          | 102 652                  | 113 250          |
| Furniture and equipment         | 143 648          | 55 597                   | 51 867           |
| Other equipment                 | 9 308            | 5 496                    | 4 495            |
|                                 | <u>\$557 970</u> | <u>\$291 848</u>         | <u>\$279 690</u> |

Fixed asset acquisitions for the fiscal year totalled \$110 804 (\$116 130 in 2003).

**ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

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**4. PENSION PLANS**

The staff members of the École participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Teachers Pension Plan (TPP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death. Employer contributions charged to the year-end statement amount to \$27 479 (2003: \$21 602). The École's liability towards these Government plans is restricted to its contributions as an employer.

**5. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the École 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 École 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.

**6. FINANCIAL INSTRUMENTS**

The fair value of the cash, receivables, payables and accrued expenses equals their book value, given that they mature in the short term.

**ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the École nationale des pompiers du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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

The board of directors, through its audit committee, must oversee the way in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the École's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Yves Desjardins  
Director General

Antoine Alonzo, CGA  
Director of Administrative Services

Laval, September 3, 2004

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the École nationale des pompiers du Québec as at June 30, 2004 and the statements of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of École management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the École's financial position as at June 30, 2004 and the results of its operations and the cash flows 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 General of Québec

Québec, September 3, 2004



**FINANCEMENT-QUÉBEC**  
(R.S.Q., c. F-2.01)

**INCOME AND RETAINED EARNINGS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                   | <u>2005</u>          | <u>2004</u>          |
|-------------------------------------------------------------------|----------------------|----------------------|
| <b>NET INTEREST INCOME</b>                                        |                      |                      |
| Interest on loans                                                 | 469 274              | 447 176              |
| Amortization of discounts and premiums on loans                   | 608                  | 1 456                |
| Interest on borrowings and advances                               | (474 801)            | (453 872)            |
| Amortization of discounts and premiums on borrowings and advances | 8 311                | 7 486                |
| Interest on short-term investments                                | <u>5 627</u>         | <u>4 959</u>         |
|                                                                   | 9 019                | 7 205                |
| <b>OTHER OPERATIONS</b>                                           |                      |                      |
| Net issuing costs charged to borrowers                            | 3 756                | 4 492                |
| Administration costs charged to borrowers                         | <u>2 054</u>         | <u>2 314</u>         |
|                                                                   | 5 810                | 6 806                |
|                                                                   | <u>14 829</u>        | <u>14 011</u>        |
| <b>OPERATING AND ADMINISTRATIVE EXPENSES</b>                      |                      |                      |
| Wages, salaries and allowances                                    | 231                  | 250                  |
| Professional, administrative and other services                   | 77                   | 120                  |
| Transportation and communications                                 | 2                    | 2                    |
| Service agreement with the Financing Fund                         | 572                  | 576                  |
| Depreciation of fixed assets                                      | 2                    | 2                    |
| Other                                                             | <u>12</u>            | <u>3</u>             |
|                                                                   | 896                  | 953                  |
| <b>NET INCOME</b>                                                 | 13 933               | 13 058               |
| <b>RETAINED EARNINGS, BEGINNING OF YEAR</b>                       | <u>39 148</u>        | <u>26 090</u>        |
| <b>RETAINED EARNINGS, END OF YEAR</b>                             | <u><u>53 081</u></u> | <u><u>39 148</u></u> |

**FINANCEMENT-QUÉBEC****BALANCE SHEET**

(in thousands of dollars)

|                                                            | March 31,<br>2005 | March 31,<br>2004 |
|------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                              |                   |                   |
| Loans (Note 3)                                             | 9 538 971         | 7 978 560         |
| Accrued interest on loans                                  | 164 499           | 155 934           |
|                                                            | <u>9 703 470</u>  | <u>8 134 494</u>  |
| Cash on hand                                               | 5 959             | 44                |
| Accounts receivable                                        | 222               | 223               |
| Fixed assets                                               | <u>1</u>          | <u>3</u>          |
|                                                            | <u>9 709 652</u>  | <u>8 134 764</u>  |
| <b>LIABILITIES</b>                                         |                   |                   |
| Borrowings (Note 4)                                        | 7 695 580         | 6 155 317         |
| Advances from the Consolidated Revenue Fund (Note 5)       | 1 757 922         | 1 761 770         |
| Interest accrued on borrowings and advances                | 162 418           | 136 412           |
| Premiums and discounts deferred on borrowings and advances | 20 768            | 29 079            |
| Accounts payable                                           | 7 516             | 55                |
| Deferred revenue                                           | 2 367             | 2 983             |
|                                                            | <u>9 646 571</u>  | <u>8 085 616</u>  |
| <b>SHAREHOLDER'S EQUITY</b>                                |                   |                   |
| Capital stock (Note 7)                                     | 100               | 100               |
| Contributed surplus                                        | 9 900             | 9 900             |
| Retained earnings                                          | <u>53 081</u>     | <u>39 148</u>     |
|                                                            | <u>9 709 652</u>  | <u>8 134 764</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**

**CASH FLOWS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                   | <u>2005</u>         | <u>2004</u>      |
|-------------------------------------------------------------------|---------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                       |                     |                  |
| Net income                                                        | 13 933              | 13 058           |
| Adjustments for:                                                  |                     |                  |
| Amortization of discounts and premiums on loans                   | (608)               | (1 456)          |
| Amortization of discounts and premiums on borrowings and advances | (8 311)             | (7 486)          |
| Depreciation of fixed assets                                      | <u>2</u>            | <u>2</u>         |
|                                                                   | ----- 5 016         | ----- 4 118      |
| Change in non-cash items linked to operations:                    |                     |                  |
| Accrued interest on loans                                         | (8 565)             | (16 552)         |
| Accounts receivable                                               | 1                   | 94               |
| Accrued interest on borrowings and advances                       | 26 006              | (5 692)          |
| Accounts payable                                                  | 7 461               | 20               |
| Deferred revenue                                                  | <u>(616)</u>        | <u>(614)</u>     |
|                                                                   | ----- 24 287        | ----- (22 744)   |
| Cash flows used for operating activities                          | <u>29 303</u>       | <u>(18 626)</u>  |
| <b>INVESTMENT ACTIVITIES</b>                                      |                     |                  |
| Loans                                                             | (2 054 163)         | (2 321 518)      |
| Loans repayment                                                   | <u>494 360</u>      | <u>1 669 343</u> |
| Cash flows used for investment activities                         | <u>(1 559 803)</u>  | <u>(652 175)</u> |
| <b>FINANCING ACTIVITIES</b>                                       |                     |                  |
| Short-term borrowings                                             | 8 861 339           | 4 101 036        |
| Long-term borrowings                                              | 1 900 000           | 1 500 000        |
| Advances from the Consolidated Revenue Fund                       |                     | 14               |
| Repayment of advances from the Consolidated Revenue Fund          | (3 848)             | (549 571)        |
| Repayment of short-term borrowings                                | (9 221 076)         | (3 572 999)      |
| Repayment of long-term borrowings                                 | <u></u>             | <u>(879 820)</u> |
| Cash flows provided by financing activities                       | <u>1 536 415</u>    | <u>598 660</u>   |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                        | 5 915               | (72 141)         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>               | <u>44</u>           | <u>72 185</u>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)</b>            | <u><u>5 959</u></u> | <u><u>44</u></u> |

The notes are an integral part of these financial statements.

**FINANCEMENT-QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars)

**1. CONSTITUTION, PURPOSE AND FINANCING**

Financement-Québec (the “Corporation”) was implemented by the Act respecting Financement-Québec (R.S.Q., c. F-2.01), which came into effect on October 1, 1999. The Corporation is a legal person with partnership capital and an agent of the State.

The Corporation is mandated by its incorporating act to provide financial services to public agencies. It finances them directly by granting them loans or issuing debt instruments on their behalf. It advises them in order to facilitate their access to credit and minimize the cost of financing and, for this purpose, develops financing programs. It may also manage the financial risks of these agencies, notably cash flow risks and foreign exchange risks. The corporation may also provide public agencies with technical services, notably related to financial analysis and management.

The Corporation charges borrowers loan flotation costs to offset those incurred by the Corporation or the Government on borrowings contracted for Financement-Québec. The Corporation also charges borrowers 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 is not subject to Québec or Canadian income tax.

**2. ACCOUNTING POLICIES**

The financial statements were prepared by Corporation management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best judgements and estimates.

**Fixed assets**

The computer equipment owned by Financement-Québec is recorded at acquisition cost and amortized over its service life using the straight-line method and a rate of 20%.

**Deferred costs and revenue**

Deferred costs and revenue are amortized over the duration remaining for each instrument according to the straight-line method.

**Currency translation**

Borrowings and advances from the Consolidated Revenue Fund denominated 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**

The Corporation’s policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

**3. LOANS**

|                                                                                      | March 31,<br>2005 | March 31,<br>2004 |
|--------------------------------------------------------------------------------------|-------------------|-------------------|
| Borrowers                                                                            |                   |                   |
| School boards                                                                        | 3 631 760         | 2 931 442         |
| Cegeps                                                                               | 1 280 028         | 1 075 787         |
| Development establishments and agencies of the health<br>and social services network | 3 340 249         | 2 989 376         |
| Universities and other                                                               | 1 286 934         | 981 955           |
|                                                                                      | <u>9 538 971</u>  | <u>7 978 560</u>  |

## FINANCEMENT-QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

**3. LOANS (cont'd)****Repayable in Canadian currency**

| Maturity date<br>Fiscal year | Amount           | Amount           |
|------------------------------|------------------|------------------|
| 2005                         |                  | 17 214           |
| 2006                         | 525 816          | 557 907          |
| 2007                         | 856 729          | 905 543          |
| 2008                         | 374 855          | 399 253          |
| 2009                         | 1 814 014        | 1 938 870        |
| 2010 – 2030                  | 5 967 557        | 4 159 773        |
|                              | <u>9 538 971</u> | <u>7 978 560</u> |

The maturity dates and interest rates on the loans extended by the Corporation 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 Corporation may grant new loans from the repayment of loans. The interest rates and maturity dates of these new loans may differ from the conditions of the advance or borrowing originally received.

The balance of discounts and premiums to be amortized in subsequent years was \$2 585 109 at March 31, 2005.

**4. BORROWINGS**

| Maturity date<br>Fiscal year               | March 31, 2005   |                                         | March 31,<br>2004 |
|--------------------------------------------|------------------|-----------------------------------------|-------------------|
|                                            | Amount           | Rate (%)                                | Amount            |
| <b>Repayable in Canadian currency</b>      |                  |                                         |                   |
| 2005                                       |                  |                                         | 528 037           |
| 2006                                       | 168 300          | <sup>1</sup>                            |                   |
| 2007                                       | 998 180          | 5.2236 to 6.456                         | 998 180           |
| 2008                                       | 500 000          | 3.74 to 4.107; variable <sup>2</sup>    | 500 000           |
| 2009                                       | 1 105 500        | 4.7814 to 5.9515; variable <sup>2</sup> | 1 105 500         |
| 2010                                       | 1 500 000        | 3.849 to 4.8683; variable <sup>2</sup>  | 1 000 000         |
| 2012                                       | 1 000 000        | 4.257 to 5.2764                         |                   |
| 2013                                       | 200 000          | 4.875 to 5.0625                         |                   |
| 2015                                       | 200 000          | 4.5745 to 4.7203                        |                   |
| 2016                                       | 309 400          | 6.109 to 6.393                          | 309 400           |
|                                            | <u>5 981 380</u> |                                         | <u>4 441 117</u>  |
| Plus: Swap agreements in Canadian currency | <u>1 714 200</u> |                                         | <u>1 714 200</u>  |
| Total in Canadian currency                 | <u>7 695 580</u> |                                         | <u>6 155 317</u>  |
| <b>Repayable in US currency</b>            |                  |                                         |                   |
| 2013                                       | 782 000          | 5.391 to 5.82                           | 782 000           |
| Less: Swap agreements in Canadian currency | <u>782 000</u>   |                                         | <u>782 000</u>    |
| Total in US currency                       |                  |                                         |                   |
| Amounts carried forward                    | <u>7 695 580</u> |                                         | <u>6 155 317</u>  |

## FINANCEMENT-QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

**4. BORROWINGS** (cont'd)

| Maturity date<br>Fiscal year               | March 31, 2005   |                                        | March 31,<br>2004 |
|--------------------------------------------|------------------|----------------------------------------|-------------------|
|                                            | Amount           | Rate (%)                               | Amount            |
| Amounts brought forward                    | 7 695 580        |                                        | 6 155 317         |
| <b>Repayable in Euros</b>                  |                  |                                        |                   |
| 2009                                       | 932 200          | 4.9005 to 5.861; variable <sup>3</sup> | 932 200           |
| Less: Swap agreements in Canadian currency | 932 200          |                                        | 932 200           |
| Total in Euros                             |                  |                                        |                   |
| <b>Total borrowings</b>                    | <b>7 695 580</b> |                                        | <b>6 155 317</b>  |

None of these borrowings are repayable before maturity. Borrowings maturing during the fiscal year ended March 31, 2006 are short-term borrowings. Borrowings maturing as of the fiscal year ended March 31, 2007 are long-term borrowings guaranteed by Québec.

1 Short-term borrowings bear interest at rates varying from 2.46442% to 2.51137%.

2 Bank acceptance rates, three months plus 0.065%, 0.268% and 0.1%

3 Bank acceptance rates, three months plus 0.387706% and 0.319%.

**5. ADVANCES FROM THE CONSOLIDATED REVENUE FUND**

| Maturity date<br>Fiscal year                    | March 31, 2005 |               | March 31,<br>2004 |
|-------------------------------------------------|----------------|---------------|-------------------|
|                                                 | Amount         | Rate (%)      | Amount            |
| <b>Repayable in Canadian currency</b>           |                |               |                   |
| 2006                                            | 742 919        | 6.00 to 9.50  | 742 919           |
| 2008                                            | 395 508        | 6.50          | 395 508           |
| 2009                                            | 5 000          | 6.98          | 5 000             |
| 2010                                            | 389 647        | 5.50 to 11.00 | 390 222           |
| 2012                                            | 67 496         | 9.5           | 69 030            |
| 2023                                            | 153 886        | 9.375         | 155 625           |
|                                                 | 1 754 456      |               | 1 758 304         |
| Plus: Swap agreements in Canadian currency      | 3 466          |               | 3 466             |
| Total in Canadian currency (to be carried over) | 1 757 922      |               | 1 761 770         |

**FINANCEMENT-QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

**5. ADVANCES FROM THE CONSOLIDATED REVENUE FUND (cont'd)**

| Maturity date<br>Fiscal year                         | March 31, 2005          |                       | March 31,<br>2004       |
|------------------------------------------------------|-------------------------|-----------------------|-------------------------|
|                                                      | Amount                  | Rate (%)              | Amount                  |
| Total in Canadian currency (carried over)            | <u>1 757 922</u>        |                       | <u>1 761 770</u>        |
| <b>Repayable in US currency</b>                      |                         |                       |                         |
| 2007                                                 | <u>3 466</u>            | Variable <sup>1</sup> | <u>3 466</u>            |
|                                                      | 3 466                   |                       | 3 466                   |
| Less: Swap agreements in Canadian currency           | <u>3 466</u>            |                       | <u>3 466</u>            |
| Total in US currency                                 | <u>          </u>       |                       | <u>          </u>       |
| Total advances from the Consolidated<br>Revenue Fund | <u><u>1 757 922</u></u> |                       | <u><u>1 761 770</u></u> |

<sup>1</sup> Bank acceptance rates, three months plus 0.277%.

The amounts of capital to be paid over the next five fiscal years break down as follows:

| Fiscal year | Amount  |
|-------------|---------|
| 2006        | 746 768 |
| 2007        | 7 315   |
| 2008        | 399 356 |
| 2009        | 8 848   |
| 2010        | 390 624 |

**6. 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, 2005 was \$10 306 million (March 31, 2004: \$6 706 million).

Financement-Québec also uses swap agreements to manage exchange risks related to certain borrowing instruments denominated in foreign currency. The Corporation 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, 2005 was assessed by capitalizing cash flows at market rates for similar fixed-rate securities. Swap and interest-rate agreements are used only for coverage purposes.

**FINANCEMENT-QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

**6. FINANCIAL INSTRUMENTS (cont'd)**

|                                    | March 31, 2005 |               | March 31, 2004 |               |
|------------------------------------|----------------|---------------|----------------|---------------|
|                                    | Book<br>value  | Fair<br>value | Book<br>value  | Fair<br>value |
| <b>Borrowings and advances</b>     |                |               |                |               |
| Borrowings                         | 7 696          | 8 062         | 6 155          | 6 493         |
| Consolidated Revenue Fund advances | 1 758          | 1 974         | 1 762          | 2 043         |
| Swap agreements                    |                | 109           |                | (18)          |
| Interest-rate swap agreements      |                | 37            |                | 112           |
| Total borrowings and advances      | <u>9 454</u>   | <u>10 182</u> | <u>7 917</u>   | <u>8 630</u>  |
| <b>Loans</b>                       |                |               |                |               |
| Total loans                        | <u>9 539</u>   | <u>10 061</u> | <u>7 979</u>   | <u>8 607</u>  |

The value of other asset and liability financial instruments corresponds essentially to the book value, given their nature or the fact that they mature in the short term.

**7. 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 Corporation's shares are held by Québec's Minister of Finance.

**8. CASH FLOWS**

|                                  | 2005         | 2004      |
|----------------------------------|--------------|-----------|
| <b>Cash and cash equivalents</b> |              |           |
| Cash on hand                     | <u>5 959</u> | <u>44</u> |
|                                  | <u>5 959</u> | <u>44</u> |

The interest paid by the Corporation during the fiscal year totalled \$448 997 970 (2004: \$460 159 822).

**9. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded 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 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 its activities and under normal business conditions. These transactions are not shown separately in the financial statements.



**FINANCEMENT-QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of Financement-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Corporation's management acknowledges that it is responsible for conducting affairs in accordance with the statutes and regulations governing it.

The board of directors oversees the way in which management performs its financial reporting duties and has approved the financial statements.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Nathalie Parenteau  
Executive Vice-President

Bernard Turgeon  
President and CEO

Québec, May 9, 2005

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**AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the balance sheet of Financement-Québec as at March 31, 2005, the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Commission's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with 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 General of Québec

Québec, May 9, 2005

**FONDATION DE LA FAUNE DU QUÉBEC**  
(R.S.Q., c. C-61.1)

**INCOME AND CHANGES IN FUND BALANCES**  
for the year ended March 31, 2005

|                                                                                | General Fund       |                    | Fixed Assets Fund  |                    | Total              |                    |
|--------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                | 2005               | 2004               | 2005               | 2004               | 2005               | 2004               |
|                                                                                |                    | (Restated)         |                    | (Restated)         |                    | (Restated)         |
| <b>REVENUE</b>                                                                 |                    |                    |                    |                    |                    |                    |
| Contributions collected on the issue of fishing, hunting and trapping licenses | \$3 092 008        | \$3 014 059        |                    |                    | \$3 092 008        | \$3 014 059        |
| Government contributions to employment programs                                | 1 800 534          | 1 820 108          |                    |                    | 1 800 534          | 1 820 108          |
| Fundraising (Note 4)                                                           | 842 724            | 758 611            |                    |                    | 842 724            | 758 611            |
| Other contributions (Note 4)                                                   | 274 022            | 341 116            | \$1 345 400        | \$208 655          | 1 619 422          | 549 771            |
| Interest                                                                       | 100 932            | 100 897            | 14 237             | 6 814              | 115 169            | 107 711            |
|                                                                                | <u>6 110 220</u>   | <u>6 034 791</u>   | <u>1 359 637</u>   | <u>215 469</u>     | <u>7 469 857</u>   | <u>6 250 260</u>   |
| <b>EXPENDITURE (Note 5)</b>                                                    |                    |                    |                    |                    |                    |                    |
| Cost of wildlife projects                                                      | 3 065 232          | 3 000 353          | 1 379 639          | 66 394             | 4 444 871          | 3 066 747          |
| Cost of job creation projects                                                  | 1 811 893          | 1 827 758          |                    |                    | 1 811 893          | 1 827 758          |
| Fundraising expenses                                                           | 532 538            | 524 116            |                    |                    | 532 538            | 524 116            |
| Administrative expenses                                                        | 514 095            | 510 844            |                    |                    | 514 095            | 510 844            |
|                                                                                | <u>5 923 758</u>   | <u>5 863 071</u>   | <u>1 379 639</u>   | <u>66 394</u>      | <u>7 303 397</u>   | <u>5 929 465</u>   |
| <b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE</b>                            | <u>186 462</u>     | <u>171 720</u>     | <u>(20 002)</u>    | <u>149 075</u>     | <u>166 460</u>     | <u>320 795</u>     |
| <b>OPENING FUND BALANCES</b>                                                   |                    |                    |                    |                    |                    |                    |
| Established balances                                                           | 1 370 233          | 1 265 529          | 2 644 699          | 2 465 601          | 4 014 932          | 3 731 130          |
| Adjustments (Note 3)                                                           |                    |                    |                    |                    |                    |                    |
| Correction of fringe benefits                                                  |                    | (42 016)           |                    |                    |                    | (42 016)           |
| Correction of charges to fixed assets                                          |                    |                    |                    | 5 023              |                    | 5 023              |
| Adjusted balances                                                              | <u>1 370 233</u>   | <u>1 223 513</u>   | <u>2 644 699</u>   | <u>2 470 624</u>   | <u>4 014 932</u>   | <u>3 694 137</u>   |
| Inter-fund transfers (Note 6)                                                  | <u>(50 000)</u>    | <u>(25 000)</u>    | <u>50 000</u>      | <u>25 000</u>      |                    |                    |
| <b>CLOSING FUND BALANCES</b>                                                   | <u>\$1 506 695</u> | <u>\$1 370 233</u> | <u>\$2 674 697</u> | <u>\$2 644 699</u> | <u>\$4 181 392</u> | <u>\$4 014 932</u> |

The notes are an integral part of these financial statements.

## FONDATION DE LA FAUNE DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                          | 2005               |                    |                    | 2004               |
|------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                          | General Fund       | Fixed Assets Fund  | Total              | Total              |
| <b>ASSETS</b>                            |                    |                    |                    |                    |
| <b>Current assets</b>                    |                    |                    |                    |                    |
| Cash on hand                             | \$36 686           | \$871              | \$37 557           | \$28 775           |
| Term deposits (average rate of 4.08%)    | 1 114 840          | 389 562            | 1 504 402          | 1 672 019          |
| Accounts receivable (Note 7)             | 286 521            | 46 612             | 333 133            | 307 436            |
| Accrued interest                         | 55 931             | 4 974              | 60 905             | 65 412             |
| Inventory                                | 17 410             |                    | 17 410             | 42 439             |
| Prepaid expenses                         | 15 320             | 10 367             | 25 687             | 28 857             |
|                                          | <u>1 526 708</u>   | <u>452 386</u>     | <u>1 979 094</u>   | <u>2 144 938</u>   |
| <b>Contributions receivable</b> (Note 8) |                    | 571 959            | 571 959            |                    |
| <b>Investments</b> (Note 9)              | 400 000            |                    | 400 000            | 400 000            |
| <b>Fixed assets</b> (Note 10)            | <u>132 016</u>     | <u>2 376 958</u>   | <u>2 508 974</u>   | <u>2 390 388</u>   |
|                                          | <u>\$2 058 724</u> | <u>\$3 401 303</u> | <u>\$5 460 027</u> | <u>\$4 935 326</u> |
| <b>LIABILITIES</b>                       |                    |                    |                    |                    |
| <b>Current liabilities</b>               |                    |                    |                    |                    |
| Accounts payable and accruals            | \$536 921          | \$3 400            | \$540 321          | \$509 820          |
| Excess contributions (Note 12)           |                    | 221 317            | 221 317            |                    |
| Deferred subscriptions (Note 13)         | 13 578             |                    | 13 578             | 406 751            |
| Deferred revenue                         | 1 529              |                    | 1 529              | 3 823              |
|                                          | <u>552 028</u>     | <u>224 717</u>     | <u>776 745</u>     | <u>920 394</u>     |
| <b>Bank borrowings</b> (Note 14)         |                    | 501 889            | 501 889            |                    |
|                                          | <u>552 028</u>     | <u>726 606</u>     | <u>1 278 634</u>   | <u>920 394</u>     |
| <b>FUND BALANCES</b>                     |                    |                    |                    |                    |
| Invested in fixed assets                 | 132 016            | 2 376 958          | 2 508 974          | 2 390 388          |
| Reserved for partners (Note 15)          | 145 305            |                    | 145 305            | 74 075             |
| Allocations for wildlife projects:       |                    |                    |                    |                    |
| Balance committed (Note 16)              | 1 229 375          | 190 125            | 1 419 500          | 1 430 936          |
| Free balance                             |                    | 107 614            | 107 614            | 119 533            |
|                                          | <u>1 506 696</u>   | <u>2 674 697</u>   | <u>4 181 393</u>   | <u>4 014 932</u>   |
|                                          | <u>\$2 058 724</u> | <u>\$3 401 303</u> | <u>\$5 460 027</u> | <u>\$4 935 326</u> |

**DEPOSITS – WILDLIFE PROJECTS** (Note 11)**COMMITMENTS** (Note 17)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Duchesne  
Johanne Gauthier

## FONDATION DE LA FAUNE DU QUÉBEC

## CASH FLOWS

for the year ended March 31, 2005

|                                                             | 2005               |                      |                    | 2004               |
|-------------------------------------------------------------|--------------------|----------------------|--------------------|--------------------|
|                                                             | General<br>Fund    | Fixed Assets<br>Fund | Total              | Total              |
| <b>OPERATING ACTIVITIES</b>                                 |                    |                      |                    |                    |
| Receipts                                                    |                    |                      |                    |                    |
| Contributions - users, partners,<br>clients and members     | \$3 978 853        | \$3 346              | \$3 982 199        | \$3 902 972        |
| Government contributions                                    | 1 653 633          | 949 346              | 2 602 979          | 2 622 182          |
| Interest earned                                             | 105 827            | 13 849               | 119 676            | 89 122             |
| Disbursements                                               |                    |                      |                    |                    |
| Contributions to projects                                   | (4 223 573)        | (1 290 588)          | (5 514 161)        | (4 065 355)        |
| Suppliers and staff members                                 | (1 627 114)        | (91 113)             | (1 718 227)        | (1 664 388)        |
| Interest paid                                               | (2 961)            |                      | (2 961)            | (4 231)            |
| Net fund (outflows) inflows                                 | (115 335)          | (415 160)            | (530 495)          | 880 302            |
| <b>INVESTMENT ACTIVITIES</b>                                |                    |                      |                    |                    |
| Net fund outflows                                           |                    |                      |                    |                    |
| Acquisition of fixed assets                                 | (24 244)           | (105 985)            | (130 229)          | (27 025)           |
| <b>FINANCING ACTIVITIES</b>                                 |                    |                      |                    |                    |
| Borrowings                                                  |                    | 501 889              | 501 889            |                    |
| Inter-fund transfer                                         | (50 000)           | 50 000               |                    |                    |
| Net fund (outflows) inflows                                 | (50 000)           | 551 889              | 501 889            |                    |
| <b>(DECREASE) INCREASE IN CASH AND<br/>CASH EQUIVALENTS</b> | (189 579)          | 30 744               | (158 835)          | 853 277            |
| <b>CASH AND CASH EQUIVALENTS,<br/>BEGINNING OF YEAR</b>     | 1 341 105          | 359 689              | 1 700 794          | 847 517            |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR *</b>         | <u>\$1 151 526</u> | <u>\$390 433</u>     | <u>\$1 541 959</u> | <u>\$1 700 794</u> |

\* Cash and cash equivalents include cash (bank overdraft) and term deposits.

The notes are an integral part of these financial statements.

## FONDATION DE LA FAUNE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

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#### 1. CONSTITUTION, PURPOSE AND FUNDING

The Fondation de la faune du Québec, a non-profit corporation, was established under the Act respecting the conservation and development of wildlife (R.S.Q., chapter C-61.1) for the purpose of promoting the conservation and development of wildlife and wildlife habitats.

The Fondation is recognized as a charitable organization under provincial and federal tax legislation and is not subject to income tax.

A contribution toward the funding of the Fondation, the amount of which is determined by regulation of the Government, is collected on the issue of fishing, hunting and trapping licences and paid to the Fondation by the Ministère des Ressources naturelles et de la Faune.

#### 2. ACCOUNTING POLICIES

The financial statements of the Fondation were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

La Fondation uses the fund accounting method to record contributions.

The Fondation's current operations are included in the General Fund.

The Fixed Assets Fund records transactions related to the acquisition of land and development and equipment rights for wildlife habitat protection purposes. The Fund's net assets are reserved for the acquisition of fixed assets for the Fondation or third parties and for payment of related expenses. These fixed 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.

##### **Contribution recording**

Contributions allocated to operations are entered as revenue in the General Fund in the year during which the related expenditures are made. Contributions and interest allocated to fixed assets are entered as revenue in the Fixed Assets Fund.

Non-designated contributions are entered as revenue in the year during which they are made.

##### **Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

##### **Fixed assets**

###### *Equipment*

Equipment is recorded at cost and amortized over its useful life on a straight-line basis at rates of 20 and 33 1/3%.

###### *Works of art*

Works of art—primarily wildlife paintings—are recorded at cost, except for those which are donated or received in exchange for services rendered, which are recorded, on the acquisition date, at their estimated market value. They are not amortized.

###### *Land*

Land is entered at cost, except donated land, which is recorded, on the date of acquisition, at its estimated market value or a value based on its municipal assessment.

###### *Development rights*

Development rights held under acts of servitude for wildlife are recorded at cost. They are not amortized.

**FONDATION DE LA FAUNE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**2. ACCOUNTING POLICIES (cont'd)****Cash and cash equivalents**

The Fondation's policy consists in presenting under cash and cash equivalents cash on hand, bank overdraft and term deposits that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

**Pension plans**

The Fondation participates in interenterprise government defined-benefits plans. Since it lacks sufficient information to apply the accounting procedure for defined-benefit plans, the Fondation applies the accounting procedure for defined-contribution plans.

**3. CORRECTION OF ERRORS IN THE FINANCIAL STATEMENTS OF PREVIOUS FISCAL YEARS**

Corrections were made in calculating fringe benefits in the General Fund. The financial statements ended March 31, 2004 were adjusted, thereby increasing (decreasing) the following items:

|                           |          |
|---------------------------|----------|
| Cost of wildlife projects | \$7 112  |
| Fundraising costs         | 3 156    |
| Administrative costs      | 4 873    |
| Fund balance              | (42 016) |
| Accounts payable          | 57 157   |

Corrections were made in recording fixed assets in the Fixed Assets Fund. The financial statements for the fiscal year ended March 31, 2004 were adjusted, thereby increasing the following items:

|              |         |
|--------------|---------|
| Fixed assets | \$5 023 |
| Fund balance | 5 023   |

**4. FUNDRAISING AND OTHER CONTRIBUTIONS**

|                                | 2005        |                     |              | 2004        |
|--------------------------------|-------------|---------------------|--------------|-------------|
|                                | Fundraising | Other contributions |              | Total       |
|                                |             | Operations          | Fixed assets |             |
| Governments and municipalities | \$74 973    | \$160 291           | \$1 345 400  | \$1 580 664 |
| Enterprises                    | 417 690     | 24 220              |              | 441 910     |
| Individuals                    | 242 420     | 6 415               |              | 248 835     |
| Foundations and NPOs           | 107 641     | 83 096              |              | 190 737     |
|                                | \$842 724   | \$274 022           | \$1 345 400  | \$2 462 146 |
|                                |             |                     |              | \$1 308 382 |

## FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**5. EXPENDITURE****GENERAL FUND**

|                                                                            | <u>2005</u>        | <u>2004</u><br>(Restated) |
|----------------------------------------------------------------------------|--------------------|---------------------------|
| <b>Cost of wildlife projects</b>                                           |                    |                           |
| Contributions:                                                             |                    |                           |
| Partners' habitat-related projects                                         | \$1 860 348        | \$1 849 296               |
| Fondation's habitat-related projects *                                     | 18 000             | 68 715                    |
| Fishing-related projects and projects related to<br>the next generation ** | 534 457            | 498 604                   |
| Salaries and fringe benefits                                               | 486 094            | 481 247                   |
| Professional fees                                                          | 14 879             | 10 621                    |
| Purchase of goods                                                          |                    | 7 320                     |
| Travelling expenses                                                        | 13 705             | 9 616                     |
| Meetings, conferences and professional development                         | 7 300              | 3 582                     |
| Advertising and promotional expenses                                       | 116 513            | 60 176                    |
| Printing and office expenses                                               | 10 809             | 8 097                     |
| Furniture and equipment                                                    | 859                | 623                       |
| Depreciation of fixed assets                                               | 2 268              | 2 456                     |
| Other                                                                      |                    |                           |
|                                                                            | <u>\$3 065 232</u> | <u>\$3 000 353</u>        |
| <b>Cost of job creation projects</b>                                       |                    |                           |
| Wage subsidies                                                             | \$1 800 534        | \$1 820 108               |
| Other costs                                                                | 11 359             | 7 650                     |
|                                                                            | <u>\$1 811 893</u> | <u>\$1 827 758</u>        |

\* Includes \$- (2004: \$13 770) for professional fees.

\*\* An amount of \$29 917 for the purchase of fishing rods and the corresponding revenue were not presented in 2005 (2004: \$13 192).

|                                                   | <u>2005</u>      | <u>2004</u><br>(Restated) |
|---------------------------------------------------|------------------|---------------------------|
| <b>Fundraising expenses</b>                       |                  |                           |
| Salaries and fringe benefits                      | \$223 060        | \$232 997                 |
| Professional fees                                 | 17 097           | 15 382                    |
| Commissions and royalties                         | 28 527           | 34 072                    |
| Purchase of goods                                 | 53 013           | 43 175                    |
| Travelling expenses                               | 15 022           | 15 044                    |
| Meetings, conference and professional development | 17 274           | 17 826                    |
| Meals / benefits (events)                         | 44 224           | 35 516                    |
| Advertising and promotional expenses              | 85 970           | 86 078                    |
| Printing and office expenses                      | 26 732           | 22 070                    |
| Furniture and equipment                           | 126              | 624                       |
| Depreciation of fixed assets                      | 4 007            | 2 838                     |
| Other                                             | 17 486           | 18 494                    |
|                                                   | <u>\$532 538</u> | <u>\$524 116</u>          |

## FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**5. EXPENDITURE (cont'd)****GENERAL FUND (cont'd)**

|                                                   | 2005             | 2004<br>(Restated) |
|---------------------------------------------------|------------------|--------------------|
| <b>Administrative expenses</b>                    |                  |                    |
| Salaries and fringe benefits                      | \$345 434        | \$352 662          |
| Professional fees                                 | 11 962           |                    |
| Travelling expenses                               | 15 018           | 16 484             |
| Meetings, conference and professional development | 4 089            | 3 905              |
| Advertising and promotional expenses              | 9 800            | 11 224             |
| Rent                                              | 83 864           | 83 405             |
| Printing and office expenses                      | 23 757           | 23 057             |
| Furniture and equipment                           | 5 032            | 3 647              |
| Depreciation of fixed assets                      | 4 621            | 5 121              |
| Other                                             | 10 518           | 11 339             |
|                                                   | <u>\$514 095</u> | <u>\$510 844</u>   |

**Fixed Assets Fund**

|                                          | 2005               | 2004            |
|------------------------------------------|--------------------|-----------------|
| <b>Cost of wildlife projects</b>         |                    |                 |
| Contributions:                           |                    |                 |
| Land acquisition and protection projects | \$1 290 589        |                 |
| Indirect costs:                          |                    |                 |
| Salaries and fringe benefits             | 24 903             | \$24 529        |
| Professional fees                        | 31 095             | 14 315          |
| Advertising and promotional expenses     |                    | 6 692           |
| Land management                          | 26 645             | 17 033          |
| Interests on long-term debt              | 3 243              |                 |
| Travelling expenses and other            | 3 164              | 3 825           |
|                                          | <u>\$1 379 639</u> | <u>\$66 394</u> |

**6. INTERFUND TRANSFERS**

In 2005, \$50 000 (2004: \$25 000) was transferred from the General Fund to the Fixed Assets Fund. The transfer was designed to maintain the liquid assets surplus in the Fixed Assets Fund at the minimum defined by the board of directors by seeking a relatively stable level of interfund transfer from one year to another.

**7. ACCOUNTS RECEIVABLE**

Accounts receivable includes an amount of \$70 919 (2004: \$25 029) owed by Gouvernement du Québec departments and agencies.

**8. CONTRIBUTIONS RECEIVABLE**

|                                                                         | 2005             | 2004 |
|-------------------------------------------------------------------------|------------------|------|
| Ministère du Développement durable, de l'Environnement<br>et des Parcs: |                  |      |
| – For the repayment of bank borrowings (Note 14)                        | \$501 889        |      |
| – Other                                                                 | 70 070           |      |
|                                                                         | <u>\$571 959</u> |      |



## FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**9. INVESTMENTS**

Investments are presented at cost. These term deposits mature between June 12, 2005 and June 12, 2008 and bear interest at rates varying from 3.16% to 5.51% (average rate of 4.45%). Since the investments guarantee the bank credit line, they are renewed at maturity.

**10. FIXED ASSETS**

|                   | 2005               |                          | 2004               |
|-------------------|--------------------|--------------------------|--------------------|
|                   | Cost               | Accumulated depreciation | Net<br>(Restated)  |
| General Fund      |                    |                          |                    |
| Equipment         | \$83 252           | \$63 491                 | \$17 860           |
| Works of art      | 112 255            |                          | 101 555            |
|                   | <u>195 507</u>     | <u>63 491</u>            | <u>119 415</u>     |
| Fixed Assets Fund |                    |                          |                    |
| Equipment         | 6 568              | 6 568                    |                    |
| Land              | 2 291 318          |                          | 2 185 333          |
| Management right  | 85 640             |                          | 85 640             |
|                   | <u>2 383 526</u>   | <u>6 568</u>             | <u>2 270 973</u>   |
|                   | <u>\$2 579 033</u> | <u>\$70 059</u>          | <u>\$2 390 388</u> |

Depreciation for the year amounts to \$11 642 (2004: \$10 851).

**11. DEPOSITS – WILDLIFE PROJECTS**

The Fondation holds funds on behalf of certain agencies for special projects in which the Fondation is not involved. The balance of these funds comprising cash, term deposits, accounts receivable, accrued interest and related operations are not included in the Fondation's financial statements.

|                                        | 2005             | 2004               |
|----------------------------------------|------------------|--------------------|
| Opening fund balance                   | \$1 107 277      | \$1 452 466        |
| Deposits and interest earned           | 246 879          | 556 338            |
| Disbursements and administrative costs | (510 450)        | (884 483)          |
| Decrease in accrued interest           | <u>(9 177)</u>   | <u>(17 044)</u>    |
| Closing fund balance                   | <u>\$834 529</u> | <u>\$1 107 277</u> |

**12. EXCESS CONTRIBUTIONS**

Excess contributions represent amounts received from the Ville de Québec that were not used to acquire natural environments and which, under the agreement with the Ville de Québec, must be repaid to it.

**FONDATION DE LA FAUNE DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**13. DEFERRED CONTRIBUTIONS**

Deferred contributions present the amounts received from the Fonds Jeunesse Québec, a program that began in June 2003, and other partners designed to cover future expenditures. Changes in the amounts of the contributions recorded are as follows:

|                                              | 2005                        |          |             | 2004        |
|----------------------------------------------|-----------------------------|----------|-------------|-------------|
|                                              | Fonds<br>Jeunesse<br>Québec | Other    | Total       | Total       |
| Opening balance                              | \$356 068                   | \$50 683 | \$406 751   | \$91 503    |
| Contributions for the fiscal year            | 1 444 466                   | 20 508   | 1 464 974   | 2 245 546   |
| Amounts noted as products of the fiscal year | (1 800 534)                 | (57 613) | (1 858 147) | (1 930 298) |
| Closing balance                              |                             | \$13 578 | \$13 578    | \$406 751   |

**14. BANK BORROWINGS**

|                                                                                                                                 | 2005             | 2004 |
|---------------------------------------------------------------------------------------------------------------------------------|------------------|------|
| Borrowing, bearing interest at a fixed rate of 4.96%,<br>repayable in monthly instalments of<br>\$6 856, maturing in March 2009 | \$298 093        |      |
| Borrowing, bearing interest at a fixed rate of 4.91%,<br>repayable in monthly instalments of<br>\$1 594, maturing in March 2009 | 69 342           |      |
| Borrowing, bearing interest at a fixed rate of 4.82%,<br>repayable in monthly instalments of<br>\$1 340, maturing in March 2009 | 53 239           |      |
| Borrowing, bearing interest at a fixed rate of 4.25%,<br>maturing in March 2009*                                                | 81 215           |      |
|                                                                                                                                 | <u>\$501 889</u> |      |

The capital payments on borrowings until maturity break down as follows:

|      |          |
|------|----------|
| 2006 | \$97 594 |
| 2007 | 103 680  |
| 2008 | 108 911  |
| 2009 | 114 406  |

Under the national 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.

\* The final amount of this bank borrowing has not currently been determined. A maximum of \$95 547 was pre-authorized by the financial institution. The final terms and conditions of repayment and the interest rate will be determined when the agreement is ended, i.e. when the entire project costs are known. The amount of future capital payments do not include those related to this borrowing.

**15. RESERVED FOR PARTNERS**

The Fondation signed an agreement with the Société de la Faune et des Parcs du Québec governing the management of dedicated funds under which it receives contributions to carry out habitat projects. In keeping with this agreement, the amounts received from contributors and not used to projects are reserved for the partner benefiting from the agreement.

**FONDATION DE LA FAUNE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**16. ALLOCATIONS FOR WILDLIFE PROJECTS**
**General Fund**

The Fondation has committed to paying a sum of \$2 986 382 as financial assistance for various wildlife projects, with payments breaking down as follows:

|                     |                           |
|---------------------|---------------------------|
| 2006                | \$1 913 730               |
| 2007                | 705 052                   |
| 2008                | 277 600                   |
| 2009 and thereafter | <u>90 000</u>             |
|                     | <u><u>\$2 986 382</u></u> |

At March 31, 2005, the financial assistance contracts signed represented \$2 264 722 of the total amount committed.

The Fondation allocated \$1 229 375 to meet its commitments.

**Fixed Assets Fund**

The Fondation is committed to paying \$190 125 for the acquisition of land for wildlife purposes in 2006.

**17. COMMITMENTS**

The Fondation is committed to a long-term lease for office space expiring November 30, 2015. The minimum lease payments for the coming fiscal years are as follows:

|                     |                           |
|---------------------|---------------------------|
| 2006                | \$87 251                  |
| 2007                | 95 497                    |
| 2008                | 96 565                    |
| 2009                | 98 700                    |
| 2010                | 100 058                   |
| 2011 and thereafter | <u>596 372</u>            |
|                     | <u><u>\$1 074 443</u></u> |

**18. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its statements and measured at exchange value, the Fondation 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 Fondation 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.

**FONDATION DE LA FAUNE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**19. FUTURE FRINGE BENEFITS****Pension plan**

The staff members of the Fondation participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments on retirement and death.

The Fondation's contributions charged to the year-end statement amount to \$41 563 (2004: \$35 876). The Fondation's liability towards this Government plan is restricted to its contributions as an employer.

**20. FINANCIAL INSTRUMENTS****Bank borrowing**

At March 31, 2005, the Fondation had a bank credit line of \$500 000 that could be renewed on an annual basis. This credit line is guaranteed by investments. The amounts used bear interest at the prime rate minus 1%.

**Fair value**

The fair value of investments is estimated by actualizing future cash flows at current market interest rates for similar investment agreements.

The market value of investments was \$409 320 at March 31, 2005 (2004: \$413 646).

The fair value of the other financial instruments is equal to the book value, given that they mature in the short term.

**21. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**FONDATION DE LA FAUNE DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Fondation de la Faune du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

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 Fondation 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 ensuring that management performs its financial reporting duties and is ultimately responsible for auditing and approving the financial statements.

The Auditor General of Québec has audited the Fondation's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 his audit.

Bernard Beaudin  
President and Chief Executive Officer

Sainte-Foy, May 20, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fondation de la faune du Québec as at March 31, 2005 and the statements of income and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Fondation management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Fondation's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 20, 2005

**FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES**  
(R.S.Q., c. S-4.01)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended December 31, 2004

|                                                                 | <u>2004</u>        | <u>2003</u>        |
|-----------------------------------------------------------------|--------------------|--------------------|
| <b>REVENUE</b>                                                  |                    |                    |
| Contributions from detention centres                            | \$44 417           | \$60 612           |
| Interest on loans                                               | 12 692             | 21 417             |
| Interest on investments and bank deposits                       | 39 729             | 34 096             |
| Dividends on mutual fund units                                  | 2 779              | 1 711              |
| Gain on disposition of fixed assets                             | <u>350</u>         |                    |
|                                                                 | <u>99 967</u>      | <u>117 836</u>     |
| <b>EXPENDITURE</b>                                              |                    |                    |
| Salaries and fringe benefits                                    | 71 399             | 65 992             |
| Gift and contribution to funds established in detention centres | 57 313             | 168 290            |
| Travel                                                          | 20 325             | 17 975             |
| Office expenses                                                 | 11 653             | 7 266              |
| Professional fees                                               | 4 031              | 4 076              |
| Amortization of fixed assets                                    | 2 055              | 2 604              |
| Loss on sales of mutual fund units                              |                    | <u>548</u>         |
|                                                                 | <u>166 776</u>     | <u>266 751</u>     |
| <b>EXCESS EXPENDITURE OVER REVENUE</b>                          | (66 809)           | (148 915)          |
| <b>SURPLUS, BEGINNING OF YEAR</b>                               | <u>1 938 698</u>   | <u>2 087 613</u>   |
| <b>SURPLUS, END OF YEAR</b>                                     | <u>\$1 871 889</u> | <u>\$1 938 698</u> |

The notes are an integral part of these financial statements.

## FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

**BALANCE SHEET**

as at December 31, 2004

|                                                                 | <u>2004</u>               | <u>2003</u>               |
|-----------------------------------------------------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                                                   |                           |                           |
| <b>Current assets</b>                                           |                           |                           |
| Cash on hand                                                    | \$66 449                  | \$70 156                  |
| Short-term investments, at rates varying<br>from 2.11% to 2.70% | 425 000                   | 500 000                   |
| Accounts receivable (Note 3)                                    | 57 041                    | 65 877                    |
| Prepaid expenses                                                | 20 239                    |                           |
| Loans (Note 4)                                                  | 28 288                    | 24 802                    |
|                                                                 | <u>597 017</u>            | <u>660 835</u>            |
| <b>Loans (Note 4)</b>                                           | 290 004                   | 320 881                   |
| <b>Investments (Note 5)</b>                                     | 988 417                   | 959 014                   |
| <b>Fixed assets (Note 6)</b>                                    | <u>1 672</u>              | <u>2 991</u>              |
|                                                                 | <u><u>\$1 877 110</u></u> | <u><u>\$1 943 721</u></u> |
| <b>LIABILITIES</b>                                              |                           |                           |
| <b>Current liabilities</b>                                      |                           |                           |
| Accounts payable and accruals                                   | \$5 221                   | \$5 023                   |
| <b>SURPLUS</b>                                                  | <u>1 871 889</u>          | <u>1 938 698</u>          |
|                                                                 | <u><u>\$1 877 110</u></u> | <u><u>\$1 943 721</u></u> |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
André Simard  
Jacques Hébert

## FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

**CASH FLOWS**

for the year ended December 31, 2004

|                                                             | <u>2004</u>            | <u>2003</u>            |
|-------------------------------------------------------------|------------------------|------------------------|
| <b>OPERATING ACTIVITIES</b>                                 |                        |                        |
| Excess expenditure over revenue                             | \$(66 809)             | \$(148 915)            |
| Adjustments for:                                            |                        |                        |
| Gain on disposition of fixed assets                         | (350)                  |                        |
| Amortization of fixed assets                                | 2 055                  | 2 604                  |
| Loss on sale of mutual fund units                           |                        | 548                    |
| Dividends on mutual fund units                              | <u>(2 779)</u>         | <u>(1 711)</u>         |
|                                                             | .....(67 883).....     | .....(147 474).....    |
| <br>Variation in non-cash elements linked to operations     |                        |                        |
| Encashment of loans                                         | 27 391                 | 436 532                |
| Accounts receivable                                         | 11 493                 | 57 283                 |
| Prepaid expenses                                            | (20 239)               |                        |
| Accounts payable and accruals                               | <u>198</u>             | <u>404</u>             |
|                                                             | .....18 843.....       | .....494 219.....      |
| <br>Cash flows (used for) provided by operating activities  | <u>(49 040)</u>        | <u>346 745</u>         |
| <br><b>INVESTMENT ACTIVITIES</b>                            |                        |                        |
| Acquisition of short-term investments                       |                        | (400 000)              |
| Disposal of short-term investments                          | 75 000                 |                        |
| Acquisition of fixed assets                                 | (736)                  |                        |
| Disposition of fixed assets                                 | 350                    |                        |
| Acquisition of investments                                  | (149 055)              | (645 925)              |
| Proceeds from sale of investments                           | <u>119 774</u>         | <u>712 521</u>         |
| <br>Cash flows provided by (used for) investment activities | <u>45 333</u>          | <u>(333 404)</u>       |
| <br><b>(DECREASE) INCREASE IN CASH ON HAND</b>              | (3 707)                | 13 341                 |
| <b>CASH POSITION, BEGINNING OF YEAR</b>                     | <u>70 156</u>          | <u>56 815</u>          |
| <b>CASH POSITION, END OF YEAR</b>                           | <u><u>\$66 449</u></u> | <u><u>\$70 156</u></u> |

The notes are an integral part of these financial statements.



## FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

### NOTES TO FINANCIAL STATEMENTS December 31, 2004

#### 1. CONSTITUTION, PURPOSE AND FINANCING

A legal person within the meaning of the Civil Code, the Fonds central pour le bénéfice des personnes incarcérées was established under the Act respecting correctional services (R.S.Q., c. S-4.01). Its functions are to lend support to funds established in detention centres and in financial difficulty, for which purpose it may make them gifts or grant them loans with or without interest; devise policies concerning programs of activities and advise the Government on what regulations to adopt; and approve the program of activities established by all funds established in detention centres.

The Fonds receives contributions from all funds established for the benefit of persons confined in detention centres. This contribution is determined by the Fonds within limits set by regulation by the government and may differ for each fund.

Under the applicable income tax legislation, the Fonds is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Short-term investments

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

##### Investments

Investments are recorded at acquisition value. Any permanent depreciation is reduced by the book value of investments and the loss is posted to the fiscal year's results.

##### Fixed assets

Fixed assets are recorded at cost and amortized based on their service life using the straight-line method.

|                    | <u>Service life</u> |
|--------------------|---------------------|
| Computer equipment | 3 years             |
| Office equipment   | 5 years             |

#### 3. ACCOUNTS RECEIVABLE

|                               | <u>2004</u>     | <u>2003</u>     |
|-------------------------------|-----------------|-----------------|
| Contributions receivable      | \$40 000        | \$60 680        |
| Advances to detention centres | 12 520          |                 |
| Accrued interest receivable   | 4 521           | 5 197           |
|                               | <u>\$57 041</u> | <u>\$65 877</u> |

## FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004**4. LOANS**

|                                                                                                                                     | 2004             | 2003             |
|-------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Loans to funds established in detention centres                                                                                     |                  |                  |
| Sherbrooke – bearing interest at 5.5%, encashable in monthly instalments of \$1 171 (principal and interest), maturing in 2015*     | \$110 596        | \$118 335        |
| Sherbrooke – interest-free, encashable in monthly instalments of \$417, maturing in 2013*                                           | 41 250           | 46 250           |
| Trois-Rivières – bearing interest at 5.5%, encashable in monthly instalments of \$1 217 (principal and interest), maturing in 2015* | 112 821          | 120 973          |
| New-Carlisle – interest-free, encashable in monthly instalments of \$542, maturing in 2013*                                         | 53 625           | 60 125           |
|                                                                                                                                     | 318 292          | 345 683          |
| Payments receivable in the coming fiscal year                                                                                       | (28 288)         | (24 802)         |
|                                                                                                                                     | <u>\$290 004</u> | <u>\$320 881</u> |

\* The interest rate and terms and conditions of repayment will be re-evaluated annually on the loan's anniversary date.

**5. INVESTMENTS**

|                                                                                              | 2004             | 2003             |
|----------------------------------------------------------------------------------------------|------------------|------------------|
| Bonds                                                                                        |                  |                  |
| Gouvernement du Québec, at rates varying from 2.75% to 4.16%, maturing between 2005 and 2006 | \$518 461        | \$518 461        |
| Government of Ontario, at rate varying from 3.21% to 3.29%, maturing between 2006 and 2007   | 221 755          | 72 699           |
| Hydro-Ontario, at a rate of 6.147%, maturing in 2004                                         |                  | 119 774          |
| Accrued interest                                                                             | 36 147           | 38 805           |
|                                                                                              | 776 363          | 749 739          |
| Mutual fund units                                                                            | 212 054          | 209 275          |
|                                                                                              | <u>\$988 417</u> | <u>\$959 014</u> |

**6. FIXED ASSETS**

|                    | 2004            |                          | 2003           |
|--------------------|-----------------|--------------------------|----------------|
|                    | Cost            | Accumulated depreciation | Net            |
| Office equipment   | \$3 300         | \$2 970                  | \$330          |
| Computer equipment | 7 284           | 5 942                    | 1 342          |
|                    | <u>\$10 584</u> | <u>\$8 912</u>           | <u>\$1 672</u> |
|                    |                 |                          | <u>\$2 991</u> |

## FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES

### NOTES TO FINANCIAL STATEMENTS (cont'd) December 31, 2004

#### 7. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value due to their pending maturity date. The following table indicates the book value and the fair value of the Fonds' long-term financial instruments.

|                         | 2004          |               | 2003          |               |
|-------------------------|---------------|---------------|---------------|---------------|
|                         | Book<br>value | Fair<br>value | Book<br>value | Fair<br>value |
| <b>Financial assets</b> |               |               |               |               |
| Investments             | \$988 417     | \$1 013 365   | \$959 015     | \$969 229     |
| Loans <sup>1</sup>      | \$318 292     |               | \$345 683     |               |

<sup>1</sup> The fair value of these financial instruments cannot reasonably be estimated, given the lack of markets for this type of loan.

#### 8. COMPARATIVES FIGURES

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004

#### MANAGEMENT'S REPORT

The financial statements of the Fonds central pour le bénéfice des personnes incarcérées have been drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

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 use in preparing reliable financial statements.

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 has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Gaston Gamache  
Director

Sainte-Foy, March 7, 2005

**FONDS CENTRAL POUR LE BÉNÉFICE DES PERSONNES INCARCÉRÉES****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds central pour le bénéfice des personnes incarcérées as at December 31, 2004, the statement of revenue and expenditure and surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, March 7, 2005

**FONDS D'AIDE AUX RECOURS COLLECTIFS**  
(R.S.Q., c. R-2.1)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                              | 2005               | 2004               |
|----------------------------------------------|--------------------|--------------------|
| <b>REVENUE</b>                               |                    |                    |
| Gouvernement du Québec subsidy               | \$724 800          | \$837 100          |
| Subrogations                                 | 1 437 165          | 244 010            |
| Balances on class actions and settled claims | 49 922             | 101 758            |
| Interest                                     | 77 392             | 53 214             |
|                                              | <u>2 289 279</u>   | <u>1 236 082</u>   |
| <b>EXPENDITURE</b>                           |                    |                    |
| Assistance to recipients (Note 3)            | 1 359 922          | 962 485            |
| Expenses of the board of directors:          |                    |                    |
| Fees and fringe benefits                     | 40 517             | 43 386             |
| Communications and travelling expenses       | 4 799              | 5 387              |
|                                              | 45 316             | 48 773             |
| Administrative expenses:                     |                    |                    |
| Salaries and fringe benefits                 | 209 222            | 185 923            |
| Rent                                         | 31 870             | 31 699             |
| Professional and administrative services     | 24 646             | 17 024             |
| Transportation and communications            | 11 676             | 7 289              |
| Materials and supplies                       | 2 135              | 2 185              |
| Maintenance and repairs                      | 421                | 1 114              |
| Amortization of fixed assets                 | 7 642              | 7 642              |
| Other expenses                               | 893                | 69                 |
|                                              | 288 505            | 252 945            |
|                                              | <u>1 693 743</u>   | <u>1 264 203</u>   |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>       | 595 536            | (28 121)           |
| <b>SURPLUS, BEGINNING OF YEAR</b>            | 2 380 618          | 2 408 739          |
| <b>SURPLUS, END OF YEAR</b>                  | <u>\$2 976 154</u> | <u>\$2 380 618</u> |

**SEGMENTAL REPORTING** (Note 4)

The notes are an integral part of these financial statements.

**FONDS D'AIDE AUX RECOURS COLLECTIFS**BALANCE SHEET  
as at March 31, 2005

|                                                            | <u>2005</u>               | <u>2004</u>               |
|------------------------------------------------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                                              |                           |                           |
| <b>Current assets</b>                                      |                           |                           |
| Cash on hand                                               | \$122 842                 | \$166 869                 |
| Short-term investments - at cost                           | 1 718 907                 | 958 900                   |
| Accrued interest                                           | 56 084                    | 29 386                    |
| Prepaid expenses                                           | 798                       | 100                       |
|                                                            | <u>1 898 631</u>          | <u>1 155 255</u>          |
| <b>Investments - at cost</b> (Note 5)                      | 1 288 000                 | 1 278 788                 |
| <b>Fixed assets</b> (Note 6)                               | <u>5 326</u>              | <u>12 968</u>             |
|                                                            | <u><u>\$3 191 957</u></u> | <u><u>\$2 447 011</u></u> |
| <b>LIABILITIES</b>                                         |                           |                           |
| <b>Current liabilities</b>                                 |                           |                           |
| Accounts payable and accruals                              | \$187 527                 | \$36 820                  |
| <b>Provision for sick leave and vacation time</b> (Note 9) | <u>28 276</u>             | <u>29 573</u>             |
|                                                            | <u>215 803</u>            | <u>66 393</u>             |
| <b>SURPLUS</b> (Note 7)                                    |                           |                           |
| Maintenance of liquid assets                               | 300 000                   | 100 000                   |
| Coverage of commitments                                    | <u>2 676 154</u>          | <u>2 280 618</u>          |
|                                                            | <u>2 976 154</u>          | <u>2 380 618</u>          |
|                                                            | <u><u>\$3 191 957</u></u> | <u><u>\$2 447 011</u></u> |

**COMMITMENTS** (Note 8)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Jean Bernier  
Anne Turgeon

## FONDS D'AIDE AUX RECOURS COLLECTIFS

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

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#### 1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Fonds d'aide aux recours collectifs was established under the Act respecting the class action (R.S.Q., c. R-2.1) for the purpose of funding class action suits and disseminating information respecting the exercise of such suits. It ensures 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 is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management on an accrual basis in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The cash flow statement is not shown as it would not provide any useful additional information regarding the Fonds' cash flow during the year.

##### Revenue

Revenue from subrogations, balances on class actions and settled claims is recorded when cashed.

##### Expenditures

Expenditures in assistance to recipients are recorded during the year the assistance is required and payable inasmuch as beneficiaries met the eligibility criteria, where applicable.

##### Fixed assets

Fixed assets are presented at acquisition cost and amortized using the straight-line method over their estimated service life, which is 3 years.

##### Pension plan

The accounting procedure used for defined-contribution plans is applied to interentreprise government defined-benefit plans, given that the Fonds lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 3. FINANCIAL ASSISTANCE TO RECIPIENTS

Financial assistance to recipients for group claims in 2005 was 110 237 \$ (2004 : no amount) for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé). For the Saguenay region file following the July 1996 flooding, no aid was paid (2004: \$193 598).

## FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 4. SEGMENTAL REPORTING

| Activity sectors                                             | 2005            |                                |                  | 2004             |                                |                   |
|--------------------------------------------------------------|-----------------|--------------------------------|------------------|------------------|--------------------------------|-------------------|
|                                                              | Operations      | Assistance<br>to<br>recipients | Total            | Operations       | Assistance<br>to<br>recipients | Total             |
| <b>Revenue</b>                                               |                 |                                |                  |                  |                                |                   |
| Gouvernement du Québec<br>subsidy                            | \$426 600       | \$298 200                      | \$724 800        | \$438 900        | \$398 200                      | \$837 100         |
| Subrogations                                                 |                 | 1 437 165                      | 1 437 165        |                  | 244 010                        | 244 010           |
| Balances on class actions<br>and settled claims <sup>1</sup> |                 | 49 922                         | 49 922           |                  | 101 758                        | 101 758           |
| Interest                                                     |                 | 77 392                         | 77 392           |                  | 53 214                         | 53 214            |
|                                                              | <u>426 600</u>  | <u>1 862 679</u>               | <u>2 289 279</u> | <u>438 900</u>   | <u>797 182</u>                 | <u>1 236 082</u>  |
| <b>Expenditure</b>                                           |                 |                                |                  |                  |                                |                   |
| Assistance to recipients                                     | -----           | 1 359 922                      | 1 359 922        | -----            | 962 485                        | 962 485           |
| Expenses of the board of<br>directors:                       |                 |                                |                  |                  |                                |                   |
| Fees and fringe benefits                                     | 40 517          |                                | 40 517           | 43 386           |                                | 43 386            |
| Communications and<br>travelling expenses                    | <u>4 799</u>    |                                | <u>4 799</u>     | <u>5 387</u>     |                                | <u>5 387</u>      |
|                                                              | 45 316          |                                | 45 316           | 48 773           |                                | 48 773            |
| Administrative expenses:                                     |                 |                                |                  |                  |                                |                   |
| Salaries and fringe<br>benefits                              | 209 222         |                                | 209 222          | 185 923          |                                | 185 923           |
| Rents                                                        | 31 870          |                                | 31 870           | 31 699           |                                | 31 699            |
| Professional and<br>administrative expenses                  | 24 646          |                                | 24 646           | 17 024           |                                | 17 024            |
| Transportation and<br>communications                         | 11 676          |                                | 11 676           | 7 289            |                                | 7 289             |
| Materials and supplies                                       | 2 135           |                                | 2 135            | 2 185            |                                | 2 185             |
| Maintenance and repairs                                      | 421             |                                | 421              | 1 114            |                                | 1 114             |
| Depreciation of<br>fixed assets                              | 7 642           |                                | 7 642            | 7 642            |                                | 7 642             |
| Other expenses                                               | <u>893</u>      |                                | <u>893</u>       | <u>69</u>        |                                | <u>69</u>         |
|                                                              | 288 505         |                                | 288 505          | 252 945          |                                | 252 945           |
|                                                              | <u>333 821</u>  | <u>1 359 922</u>               | <u>1 693 743</u> | <u>301 718</u>   | <u>962 485</u>                 | <u>1 264 203</u>  |
| <b>Excess revenue over<br/>expenditure</b>                   | <u>\$92 779</u> | <u>\$502 757</u>               | <u>\$595 536</u> | <u>\$137 182</u> | <u>\$(165 303)</u>             | <u>\$(28 121)</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 FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**5. INVESTMENTS**

|                                                                                                                                                     | 2005               |                    | 2004               |                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                                                                                     | Cost               | Fair value         | Cost               | Fair value         |
| Québec savings bond maturing June 1, 2008<br>at an interest rate of 2%                                                                              |                    |                    | \$405 788          | \$412 570          |
| Québec tiered-rate bonds maturing September 26,<br>2012 at an interest rate of 4% until<br>September 25, 2005 and 4.85% until<br>September 25, 2006 | \$873 000          | \$890 891          | 873 000            | 886 490            |
| Financement Québec guaranteed-rate bonds<br>maturing June 1, 2006 at an interest rate of<br>2.92%                                                   | 415 000            | 427 050            |                    |                    |
|                                                                                                                                                     | <u>\$1 288 000</u> | <u>\$1 317 941</u> | <u>\$1 278 788</u> | <u>\$1 299 060</u> |

**6. FIXED ASSETS**

|                    | 2005            |                             | 2004           |                 |
|--------------------|-----------------|-----------------------------|----------------|-----------------|
|                    | Cost            | Accumulated<br>depreciation | Net value      | Net value       |
| Computer equipment | <u>\$23 157</u> | <u>\$17 831</u>             | <u>\$5 326</u> | <u>\$12 968</u> |

**7. SURPLUS**

The Fonds board of directors deems it essential to maintain liquid assets of \$300 000 (2004: \$100 000) in its Working Capital Fund. Moreover, it passed a resolution to reserve the surplus for the Fonds' present and future commitments.

**8. COMMITMENTS**

At March 31, 2005, Fonds' commitments related to assistance to recipients amounted to \$2 429 205 (2004: \$2 678 498), including \$79 763 (2004: \$190 000) 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, 2005 was \$3 300 000 (2004: \$3 100 000).

**9. FUTURE FRINGE BENEFITS****Pension plan**

Fonds staff members participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan that includes guaranteed payments upon retirement and death.

The Fonds contributions charged to the year-end statement were \$6 636 (2004: \$6 216). The Fonds' liability towards this Government plan is restricted to its contributions as an employer.

**FONDS D'AIDE AUX RECOURS COLLECTIFS**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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

|                               | <u>2005</u>     | <u>2004</u>     |
|-------------------------------|-----------------|-----------------|
| Opening balance               | \$29 573        | \$26 220        |
| Expenditure for the year      | 21 239          | 23 909          |
| Benefits paid during the year | <u>(22 536)</u> | <u>(20 556)</u> |
| Closing balance               | <u>\$28 276</u> | <u>\$29 573</u> |

**10. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equivalent to their book value, given their pending maturity date.

**11. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its statements and measured at exchange value, the Fondation 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 Fondation 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.

**12. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**FONDS D'AIDE AUX RECOURS COLLECTIFS****MANAGEMENT'S REPORT**

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The financial statements of the Fonds d'aide aux recours collectifs were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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 has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 Bernier  
President

Louise Ducharme  
Legal Counsel and Secretary

Montréal, July 5, 2005

**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, 2005 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, July 5, 2005

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE  
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**  
(R.S.Q., c. M-35.1)

REVENUE AND EXPENDITURE AND FUND BALANCE  
for the fiscal year ended March 31, 2005

|                                        | <u>2005</u>               | <u>2004</u>               |
|----------------------------------------|---------------------------|---------------------------|
| <b>REVENUE</b>                         |                           |                           |
| Premiums                               | \$96 324                  | \$101 371                 |
| Net investment income (Note 3)         | <u>288 282</u>            | <u>(425 169)</u>          |
|                                        | 384 606                   | (323 798)                 |
| <b>EXPENDITURE</b>                     |                           |                           |
| Guarantee claims                       | <u>(144 272)</u>          | <u>693 871</u>            |
| <b>EXCESS REVENUE OVER EXPENDITURE</b> | 528 878                   | (1 017 669)               |
| <b>OPENING FUND BALANCE</b>            | <u>3 851 941</u>          | <u>4 869 610</u>          |
| <b>CLOSING FUND BALANCE</b>            | <u><u>\$4 380 819</u></u> | <u><u>\$3 851 941</u></u> |

The notes are an integral part of these financial statements.

**BALANCE SHEET**  
as at March 31, 2005

|                                                                                          | <u>2005</u>               | <u>2004</u>               |
|------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                                                                            |                           |                           |
| Cash on hand                                                                             | \$13 441                  | \$14 294                  |
| Deposits with the Fond particulier 329 of the Caisse de<br>dépôt et placement du Québec: |                           |                           |
| Demand deposits and accrued interest                                                     | 53 792                    | 45 377                    |
| Participation deposits (Note 4)                                                          | <u>4 316 412</u>          | <u>4 470 945</u>          |
|                                                                                          | <u><u>\$4 383 645</u></u> | <u><u>\$4 530 616</u></u> |
| <b>LIABILITIES</b>                                                                       |                           |                           |
| Accounts payable                                                                         | \$735                     | \$1 890                   |
| Guarantee claim payable                                                                  | 2 091                     | 664 573                   |
| Prepaid premiums                                                                         | <u>12 212</u>             | <u>12 212</u>             |
|                                                                                          | 2 826                     | 678 675                   |
| <b>FUND BALANCE</b>                                                                      | <u><u>4 380 819</u></u>   | <u><u>3 851 941</u></u>   |
|                                                                                          | <u><u>\$4 383 645</u></u> | <u><u>\$4 530 616</u></u> |

**GUARANTEE POLICIES** (Note 6)

The notes are an integral part of these financial statements.

On behalf of the Régie,  
Marc A. Gagnon  
Yves Lapierre

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE  
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

**1. CONSTITUTION AND PURPOSE**

The Régie des marchés agricoles et alimentaires du Québec was established by a special Act (R.S.Q., c. M-35.1).

The Régie's functions are to foster the efficient and orderly marketing of agricultural and food products, the development of harmonious relations between the various parties involved and the settlement of disputes arising in connection with the production and marketing of such products, taking into account the interests of consumers and the protection of the public interest. The Régie has the same functions in respect of the marketing of fish products. It also manages the Fonds d'assurance-garantie.

**Fonds d'assurance-garantie**

The Fonds d'assurance-garantie results from the Régie's application of Division V (pertaining to guarantee policies) of the Act respecting the marketing of agricultural, food and fish products (R.S.Q., c. M-35.1, Title III, Chapter XI).

The Régie provides milk dealers with guarantee policies to cover the payment of sums that a milk dealer owes or may owe to his producers or to the agency responsible for applying a joint plan. Premiums collected and any other net revenue of the Fund must be used solely to pay claims arising from policies issued by the Régie. No one may act as a milk dealer without holding a policy issued by the Régie. On the Government's authorization, the Minister of Finance may advance the sums required by the Régie to discharge its obligations under policies it issues.

**2. ACCOUNTING POLICIES**

The financial statements of the Fonds d'assurance-garantie administered by the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best judgements and estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Fund's cash flows during the year.

**Reimbursement of claims**

Claims from producers or from the agency responsible for applying a joint plan are recorded when known. The amount of these claims is adjusted as additional information is known.

**Deposits with the Fonds particulier 329 of the Caisse de dépôt et placement du Québec**

Deposits are recorded at cost.

**Administrative expenses**

The Fund's administrative expenses are borne by the Consolidated Revenue Fund.

**3. INVESTMENT INCOME**

|                                                                      | <u>2005</u>      | <u>2004</u>        |
|----------------------------------------------------------------------|------------------|--------------------|
| Fonds particulier 329 of the Caisse de dépôt et placement du Québec: |                  |                    |
| Participation deposits                                               | \$252 179        | \$(417 248)        |
| Demand deposits                                                      | 1 314            | 1 291              |
| Gain (Loss) on sale of participation units                           | <u>34 789</u>    | <u>(9 212)</u>     |
|                                                                      | <u>\$288 282</u> | <u>\$(425 169)</u> |

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE  
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. PARTICIPATION DEPOSITS**

Participation deposits with the Fonds particulier 329 of the Caisse de dépôt et placement du Québec are expressed in units and each unit gives the holder a proportional share in the net equity and the net revenue of the Fonds particulier 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 the Fonds particulier 329 at the end of each month.

|                     | 2005        | 2004        |
|---------------------|-------------|-------------|
| Number of units     | 4 895       | 5 095       |
| Fair value per unit | \$967       | \$945       |
| Cost of units       | \$4 316 412 | \$4 470 945 |
| Fair value of units | \$4 732 110 | \$4 817 131 |

**5. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS**

**Other assets and liabilities**

The fair value of cash, accounts receivable, demand deposits, interest earned, accounts payable and claims involving a guarantee being paid equal their book value, given that they mature in the near future.

**6. GUARANTEE POLICIES**

The guarantee policies issued by the Régie insure an amount representing the two largest monthly shipments of milk and cream from producers during the previous fiscal year. Policies in force as at March 31, 2005 totalled \$389 million (2004: \$358 million).

Further, in addition to guaranteeing the solvability of a dairy merchant, the Régie demanded additional conditions before issuing a guarantee policy. For new dairy merchants, those in financial straits and foreign companies, letters of guarantee or bonds issued by financial institutions, parent companies or subsidiaries were required. The value of these additional guarantees as at March 31, 2005 totalled \$0.4 M (2004: \$0.5 M).

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE  
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec as at March 31, 2005 and the statement of revenue and expenditure and Fund balance for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds d'assurance-garantie as at March 31, 2005 and the results of its operations and cash flows 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.

For Auditor General of Québec  
France Alain, CA  
Director of Consulting Services and  
Quality Assurance

Québec, July 22, 2005



**FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**  
(R.S.Q., c. A-29.1)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005  
(in thousand of dollars)

|                                                         | <u>2005</u>   | <u>2004</u>       |
|---------------------------------------------------------|---------------|-------------------|
| <b>REVENUE</b>                                          |               |                   |
| Insurance charges (Note 4)                              | 10 433        | 14 638            |
| Investment income                                       | 5 780         | 5 369             |
| Variation in the unrealized appreciation on investments | <u>6 218</u>  | <u>          </u> |
|                                                         | ..... 22 431  | ..... 20 007      |
| <b>EXPENDITURE</b>                                      |               |                   |
| Professional fees                                       | 16            |                   |
| Change in allowance for loan guarantees (Note 5)        | <u>3 956</u>  | <u>8 494</u>      |
|                                                         | ..... 3 972   | ..... 8 494       |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                  | <u>18 459</u> | <u>11 513</u>     |
| <b>SURPLUS, BEGINNING OF YEAR</b>                       |               |                   |
| Previously established balance                          | 28 988        | 17 475            |
| Adjustment at April 1, 2004 (Note 3)                    | <u>4 801</u>  | <u>          </u> |
| Adjusted balance                                        | <u>33 789</u> | <u>17 475</u>     |
| <b>SURPLUS, END OF YEAR</b>                             | <u>52 248</u> | <u>28 988</u>     |

The notes are an integral part of these financial statements.

**FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**

BALANCE SHEET  
as at March 31, 2005  
(in thousand of dollars)

|                                                                                      | <u>2005</u>    | <u>2004</u>    |
|--------------------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                                        |                |                |
| <b>Current assets</b>                                                                |                |                |
| Cash on hand                                                                         |                | 50             |
| Caisse de dépôt et placement du Québec demand deposits, 2.5%                         | 1 487          | 884            |
| Investment income receivable                                                         | <u>772</u>     | <u>421</u>     |
|                                                                                      | 2 259          | 1 355          |
| <b>Investments (Note 6)</b>                                                          | <u>121 245</u> | <u>104 327</u> |
|                                                                                      | <u>123 504</u> | <u>105 682</u> |
| <br><b>LIABILITIES</b>                                                               |                |                |
| <b>Net gains deferred to the sale of investments</b>                                 |                |                |
| <b>Gouvernement du Québec advance –</b><br>interest-free and without repayment terms |                | 191            |
| <b>Allowance for loan guarantees (Note 5)</b>                                        | 10 000         | 10 000         |
|                                                                                      | <u>61 256</u>  | <u>66 503</u>  |
| <b>SURPLUS</b>                                                                       | 71 256         | 76 694         |
|                                                                                      | <u>52 248</u>  | <u>28 988</u>  |
|                                                                                      | <u>123 504</u> | <u>105 682</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  
Laurent Pellerin, Chairman of the Board

## FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

## CASH FLOWS

for the year ended March 31, 2005

(in thousand of dollars)

|                                                                         | 2005     | 2004     |
|-------------------------------------------------------------------------|----------|----------|
| <b>OPERATING ACTIVITIES</b>                                             |          |          |
| Excess revenue over expenditure                                         | 18 459   | 11 513   |
| Elements not affecting cash flows:                                      |          |          |
| Change in allowance for loan guarantees                                 | 3 956    | 8 494    |
| Amortization of realized and unrealized gains and losses on investments |          | (575)    |
| Losses realized on investments                                          |          | (1 670)  |
| Gain on disposal of investments                                         | (291)    | (28)     |
| Variation in unrealized appreciation of investments                     | (6 218)  |          |
|                                                                         | 15 906   | 17 734   |
| Change in non-cash elements linked to operations:                       |          |          |
| Investment income receivable                                            | (351)    | (116)    |
| Repayment of loans to lenders                                           | (9 219)  | (7 969)  |
| Recovery of losses                                                      | 16       | 336      |
|                                                                         | (9 554)  | (7 749)  |
| Cash flows related to operating activities                              | 6 352    | 9 985    |
| <b>INVESTMENT ACTIVITIES</b>                                            |          |          |
| Acquisitions of investments                                             | (10 000) | (12 159) |
| Proceeds from disposal of investments                                   | 4 201    | 2 902    |
| Cash flows related to investment activities                             | (5 799)  | (9 257)  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                          | 553      | 728      |
| <b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR</b>                  | 934      | 206      |
| <b>CASH AND CASH EQUIVALENTS, AT YEAR-END</b>                           | 1 487    | 934      |
| Cash and cash equivalents at year-end include:                          |          |          |
| Cash                                                                    |          | 50       |
| Caisse de dépôt et placement du Québec demand deposits                  | 1 487    | 884      |
|                                                                         | 1 487    | 934      |

The notes are an integral part of these financial statements.

**FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

(in thousand of dollars)

**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Fonds d'assurance-prêts agricoles et forestiers was established under the Act respecting farm-loan insurance and forestry-loan insurance (R.S.Q., c. A-29.1). It guarantees a lender the 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 that are incurred by the lender to protect his securities or to claim or obtain from the defaulting debtor the sums owing to him or that have become payable on the loan.

**2. ACCOUNTING POLICIES**

The Fonds' financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Investments**

Funds entrusted to the Caisse de dépôt et placement du Québec are recorded at the fair value established by the Caisse using evaluation methods used on capital markets. They include participation deposits in a specific Caisse fund which were irrevocably designated for transaction purposes and the related receivable.

**Allowance for loan guarantees**

As a guarantor, the Fonds is exposed to the economic uncertainties and risks inherent in agriculture and forestry. Should the economic conditions used to estimate the required allowance 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 variances in keeping with the recommendations of the Canadian Institute of Actuaries.

The specific allowance is established based on a case-by-case analysis of the loans insured as at March 31, 2005 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 capital and interest doubtful. The specific allowance represents the balance of the loan guarantee adjusted by the guarantees' realizable value.

**Cash and cash equivalents**

The Fonds' policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible into a known amount whose value is unlikely to change significantly.

**3. CHANGE IN ACCOUNTING POLICY**

As of this fiscal year, the Fonds has applied the recommendations of Section 3855 of the Canadian Institute of Chartered Accountants handbook "Financial Instruments – Recognition and Measurement".

In keeping with this standard, the funds entrusted to the Caisse de dépôt et placement du Québec are assessed at fair value. The Fonds chose to designate its investments as being held for transaction purposes, as permitted by the provisions of this standard. Consequently, the earnings and losses realized are recorded under investment income for the fiscal year and the annual variation in the appreciation or depreciation are posted to the statement of revenue and expenditure and surplus. These funds were previously recorded at acquisition cost less all permanent decreases in value.

The effect of this change on the financial statements for fiscal 2004 and preceding years, \$4 801 M, was posted on April 1, 2004 directly to the surplus. The financial statements for the fiscal year ended March 31, 2004 were not adjusted to reflect this change.

## FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousand of dollars)

**3. CHANGE IN ACCOUNTING POLICY (cont'd)**

Applied retroactively, this change increased the following financial statement items for the fiscal year ended March 31, 2005:

## REVENUE AND EXPENDITURE AND SURPLUS

## REVENUE

|                                                         |       |
|---------------------------------------------------------|-------|
| Variation in the unrealized appreciation on investments | 6 218 |
|---------------------------------------------------------|-------|

|                                 |              |
|---------------------------------|--------------|
| EXCESS REVENUE OVER EXPENDITURE | <u>6 218</u> |
|---------------------------------|--------------|

## BALANCE SHEET

## ASSETS

|             |        |
|-------------|--------|
| Investments | 10 828 |
|-------------|--------|

## LIABILITIES

|                                               |              |
|-----------------------------------------------|--------------|
| Net gains deferred to the sale of investments | <u>(191)</u> |
|-----------------------------------------------|--------------|

|         |               |
|---------|---------------|
| SURPLUS | <u>11 019</u> |
|---------|---------------|

**4. INSURANCE CHARGES**

Since April 1, 2004, insurance charges have been paid in full by La Financière agricole du Québec. Last year, it paid the farm financing insurance charges and the Gouvernement du Québec paid forestry financing charges. Insurance charges correspond to 1.43% of the authorized amount of loans for which the first instalment was paid to the lender during 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.

**5. ALLOWANCE FOR LOAN GUARANTEES**

|                                         | <u>2005</u>   | <u>2004</u>   |
|-----------------------------------------|---------------|---------------|
| Opening balance                         | 66 503        | 65 642        |
| Reimbursement of losses to lenders      | (9 219)       | (7 969)       |
| Recovery of losses                      | 16            | 336           |
| Change in allowance for loan guarantees | <u>3 956</u>  | <u>8 494</u>  |
| Closing balance                         | <u>61 256</u> | <u>66 503</u> |
| Closing balance breaks down as follows: |               |               |
| Specific allowance                      | 12 438        | 15 693        |
| General allowance                       | <u>48 818</u> | <u>50 810</u> |
|                                         | <u>61 256</u> | <u>66 503</u> |

The allowance for loan guarantees is established in relation to the overall portfolio of loans insured as at March 31, 2005, totalling \$4 260.3 million (2004: \$4 286.4 million). As at March 31, 2005, insured loans covered by a specific allowance amount to \$29 million (2004: \$39 million).

## FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousand of dollars)

## 5. ALLOWANCE FOR LOAN GUARANTEES (cont'd)

## Insured loan guarantee

The duration of the guarantee corresponds to the remaining duration of the loans which breaks down as follows:

|                         | 2005             | 2004             |
|-------------------------|------------------|------------------|
| Farm financing:         |                  |                  |
| less than 5 years       | 423 905          | 389 241          |
| between 5 and 10 years  | 1 238 478        | 1 276 728        |
| between 10 and 15 years | 1 453 440        | 1 470 458        |
| between 15 and 20 years | 1 035 020        | 1 038 417        |
| 20 years and more       | 36 170           | 48 837           |
|                         | <u>4 187 013</u> | <u>4 223 681</u> |
| Forestry financing:     |                  |                  |
| less than 5 years       | 11 011           | 11 199           |
| between 5 and 10 years  | 18 177           | 16 875           |
| between 10 and 15 years | 20 648           | 17 827           |
| between 15 and 20 years | 23 036           | 16 753           |
| 20 years and more       | 422              | 77               |
|                         | <u>73 294</u>    | <u>62 731</u>    |
|                         | <u>4 260 307</u> | <u>4 286 412</u> |

The balances in principle and interest of insured loans, for which the Fonds reimburses the losses and pays the related fees, bear interest at the following rates:

|                                                                                                                                                              | 2005             | 2004             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Farm financing:                                                                                                                                              |                  |                  |
| less than 4%                                                                                                                                                 | 308 682          | 112 583          |
| from 4% to 5.99%                                                                                                                                             | 2 634 818        | 2 488 929        |
| 6% and more                                                                                                                                                  | 658 235          | 997 384          |
| 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 | <u>585 278</u>   | <u>624 785</u>   |
|                                                                                                                                                              | <u>4 187 013</u> | <u>4 223 681</u> |
| Forestry financing:                                                                                                                                          |                  |                  |
| less than 5%                                                                                                                                                 | 31 485           | 23 969           |
| from 5% to 6.99%                                                                                                                                             | 29 489           | 21 783           |
| 7% and more                                                                                                                                                  | 4 969            | 7 738            |
| 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 | <u>7 351</u>     | <u>9 241</u>     |
|                                                                                                                                                              | <u>73 294</u>    | <u>62 731</u>    |
|                                                                                                                                                              | <u>4 260 307</u> | <u>4 286 412</u> |

## FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousand of dollars)

#### 5. ALLOWANCE FOR LOAN GUARANTEES (cont'd)

The Fonds has certain recourses allowing it to recover, from third parties, amounts paid to lenders once the guarantee is enforced.

The nature of the assets held as surety by the lenders comprises primarily farm or forestry harvesting units, dairy quotas and sureties. The Fonds covers the lender's residual loss.

The fair value of the loan guarantee equals the overall provision, given that the latter is subject to actuarial analysis every four years and annual review.

#### 6. INVESTMENTS

Participation deposits are invested in a specific fund into the Caisse de dépôt et placement du Québec and are expressed in units. These units are repayable with advance notice according to the terms of the Caisse's regulations, at the market value of the net equity of the specific fund at the end of each month. Demand deposits, presented separately from short-term assets, are also invested in a specific fund.

|                                                                                     | <u>2005</u>    | <u>2004</u>    |
|-------------------------------------------------------------------------------------|----------------|----------------|
| Participation deposits at cost of units                                             |                | 104 291        |
| Cumulated adjustment of the difference between<br>market value and acquisition cost |                | 36             |
| Participation deposits at fair value                                                | <u>121 245</u> | <u>104 327</u> |
|                                                                                     | <u>121 245</u> | <u>104 327</u> |

#### 7. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, 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 either joint control or significant influence by it. The Fonds did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions..

#### 8. FINANCIAL INSTRUMENTS

##### Fair value

The fair value of short-term financial instruments is equivalent to the fair book value, given that they mature in the near future. The fair value of the loan guarantee provision is equivalent to the book value, given that the provision is subject to actuarial analysis every four years and annual review. The fair value of the Gouvernement du Québec advance cannot reasonably be estimated, given the lack of a market.

**FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousand of dollars)

**8. FINANCIAL INSTRUMENTS (cont'd)****Market risk**

The Fonds is subject to economic conditions affecting the sectors in which it exercises its activities. The total value of the portfolio is divided among the following sectors:

|                          |      |
|--------------------------|------|
| Dairy production         | 54 % |
| Hog production           | 12 % |
| Grain production         | 9 %  |
| Horticultural production | 7 %  |
| Beef production          | 6 %  |
| Maple product production | 4 %  |
| Other                    | 8 %  |

**9. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.



**FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS****MANAGEMENT'S REPORT**

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The financial statements of the Fonds d'assurance-prêts agricoles et forestiers were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. At least every four years, the Fonds must perform an actuarial analysis of its operations and collate all information useful for setting insurance fee rates.

The board of directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its responsibilities by the budgetary monitoring and auditing committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 Fonds d'assurance-prêts agricoles et forestiers,

Jacques Brind'Amour  
President and Chief Executive Officer

Sylvie Grondin, CGA  
Vice-President, Corporate Affairs

Québec, May 20, 2005

**FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-prêts agricoles et forestiers as at March 31, 2005 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used, the significant estimates made by management, and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Fonds' financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting policies 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, given the retroactive application of the change made to investment assessment as disclosed 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, May 20, 2005

**FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**  
(R.S.Q., c. D-9.1)

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                 | <u>2005</u>                 | <u>2004</u>               |
|-------------------------------------------------|-----------------------------|---------------------------|
| <b>REVENUE</b>                                  |                             |                           |
| Subsidies (Note 3)                              | \$83 816 834                | \$81 358 370              |
| Interest and other revenue (Note 4)             | <u>2 126 391</u>            | <u>1 863 066</u>          |
|                                                 | 85 943 225                  | 83 221 436                |
| <b>SCHOLARSHIPS AND GRANTS AWARDED</b> (Note 5) | 82 887 923                  | 79 075 107                |
| <b>OPERATING EXPENSES</b> (Note 6)              | <u>4 635 919</u>            | <u>4 892 806</u>          |
| <b>DEFICIENCY OF REVENUE OVER EXPENDITURE</b>   | <u><u>\$(1 580 617)</u></u> | <u><u>\$(746 477)</u></u> |

The notes are an integral part of these financial statements.

SURPLUS  
for the year ended March 31, 2005

|                                        | <u>2005</u>               | <u>2004</u>               |
|----------------------------------------|---------------------------|---------------------------|
| <b>SURPLUS, BEGINNING OF YEAR</b>      | \$3 442 473               | \$4 188 950               |
| Deficiency of revenue over expenditure | <u>(1 580 617)</u>        | <u>(746 477)</u>          |
| <b>SURPLUS, END OF YEAR</b>            | <u><u>\$1 861 856</u></u> | <u><u>\$3 442 473</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, 2005

|                                         | <u>2005</u>                | <u>2004</u>                |
|-----------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                           |                            |                            |
| <b>Current assets</b>                   |                            |                            |
| Cash on hand                            |                            | \$426 687                  |
| Term deposits (2.50% to 2.55%)          | \$14 566 472               | 12 842 500                 |
| Accrued interest                        | 147 127                    | 116 995                    |
| Accounts receivable (Note 8)            | 603 355                    | 595 468                    |
| Prepaid expenses                        | <u>106 362</u>             | <u>111 595</u>             |
|                                         | 15 423 316                 | 14 093 245                 |
| <b>Fixed assets</b> (Note 9)            | <u>952 918</u>             | <u>1 312 790</u>           |
|                                         | <u><u>\$16 376 234</u></u> | <u><u>\$15 406 035</u></u> |
| <b>LIABILITIES</b>                      |                            |                            |
| <b>Current liabilities</b>              |                            |                            |
| Bank overdraft                          | \$2 763 153                |                            |
| Scholarships and grants payable         | 4 533 758                  | \$4 376 134                |
| Accounts payable and accruals (Note 10) | 565 157                    | 531 662                    |
| Deferred revenue (Note 11)              | <u>4 570 106</u>           | <u>4 436 747</u>           |
|                                         | 12 432 174                 | 9 344 543                  |
| <b>Deferred contributions</b>           | 771 457                    | 1 312 790                  |
| <b>Special Research Fund</b> (Note 12)  | 1 310 747                  | 1 306 229                  |
| <b>APPROPRIATED SURPLUS</b> (Note 7)    | <u>1 861 856</u>           | <u>3 442 473</u>           |
|                                         | <u><u>\$16 376 234</u></u> | <u><u>\$15 406 035</u></u> |
| <b>COMMITMENTS</b> (Note 14)            |                            |                            |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Cheri L. Deal  
Alain Beaudet

## FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

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#### 1. CONSTITUTION AND PURPOSE

The Fonds de la recherche en santé du Québec is a corporation established under the Act to promote the advancement of science and technology in Québec (R.S.Q., c. D-9.1). Its purpose is to promote or provide financial support, through grants and scholarships, for research and for the training and advanced training of researchers in the field of health sciences. In addition, it implements the financial support programs that are under its authority pursuant to another act or, with the authorization of the Government and on the conditions it determines, the financial support programs under the authority of a Government department or public agency.

Under section 67 of the Act to promote the advancement of science and technology in Québec, the Fonds de la recherche en santé du Québec is an agent of the Gouvernement du Québec, and, as such, exempt from federal and provincial income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown as it would not provide any useful supplementary information regarding the Fonds' cash flow during the year.

##### Scholarships and grants awarded

Scholarships and grants are entered when they are approved and the recipients have met the eligibility criteria. Scholarships and grants that are cancelled or recovered are recorded in the year in which they were cancelled or recovered.

##### Fixed assets

Fixed assets are recorded at acquisition cost and depreciated on a straight-line basis applicable for the estimated duration of their service life, i.e. 5 years for furniture and equipment, 3 years for computer equipment and software and for the remainder of the lease for leasehold improvements.

##### Deferred revenue

Subsidies appropriated by the Government for the awarding of scholarships and grants and the implementation of the information systems review program are deferred and recognized during the fiscal year when the expenses to which they are related are incurred.

##### Deferred contributions

Contributions received for the Gouvernement du Québec for the acquisition of depreciable fixed assets are deferred and entered in the statement of revenue and expenditure on the same terms as the depreciation of the related fixed assets.

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise 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 FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**3. SUBSIDIES - SCHOLARSHIPS AND GRANTS**

|                                                                               | 2005                | 2004                |
|-------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Government</b>                                                             |                     |                     |
| Ministère du Développement économique, de l'Innovation<br>et de l'Exportation | \$70 783 838        | \$69 594 821        |
| Régie de l'assurance maladie du Québec                                        | 8 400 000           | 8 400 000           |
| Ministère des Affaires internationales du Québec                              | 3 691               | 11 015              |
| Ministère de la Santé et des Services sociaux du Québec                       | 2 804 292           | 1 933 782           |
| Société de l'assurance automobile du Québec                                   | 192 000             | 192 000             |
| Institut de recherche Robert-Sauvé en santé et en sécurité du travail         |                     | 75 000              |
| Fonds québécois de la recherche sur la nature et les technologies             |                     | 25 000              |
| Fonds québécois de la recherche sur la société et la culture                  | 652 500             | 746 250             |
| Hôpital Louis H. Lafontaine                                                   | 14 402              |                     |
| Newton Foundation                                                             | 250 000             |                     |
| Amortization of deferred contributions                                        | 531 858             | 240 583             |
|                                                                               | <u>83 632 581</u>   | <u>81 218 451</u>   |
| <b>Other</b>                                                                  | <u>184 253</u>      | <u>139 919</u>      |
|                                                                               | <u>\$83 816 834</u> | <u>\$81 358 370</u> |

**4. INTERESTS AND OTHER REVENUES**

|                                                       | 2005               | 2004               |
|-------------------------------------------------------|--------------------|--------------------|
| Interest on bank and short-term deposits              | \$628 533          | \$753 472          |
| Cancellations and recovery of scholarships and grants | 515 154            | 712 328            |
| Other                                                 | 982 704            | 397 266            |
|                                                       | <u>\$2 126 391</u> | <u>\$1 863 066</u> |

**5. SCHOLARSHIPS AND GRANTS AWARDED**

|                                                             | 2005                | 2004                |
|-------------------------------------------------------------|---------------------|---------------------|
| Subsidies for groups, centres, teams and<br>research themes | \$46 144 797        | \$45 026 422        |
| Research fellowships and national health scientists         | 19 014 688          | 18 512 020          |
| Project subsidies                                           | 7 075 818           | 5 996 792           |
| Training grants                                             | 10 255 339          | 9 263 758           |
| Partnerships                                                | 397 281             | 276 115             |
|                                                             | <u>\$82 887 923</u> | <u>\$79 075 107</u> |

## FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**6. OPERATING EXPENSES**

|                                                           | 2005               | 2004               |
|-----------------------------------------------------------|--------------------|--------------------|
| Salaries and fringe benefits                              | \$2 083 614        | \$2 106 682        |
| Professional fees                                         | 361 483            | 592 120            |
| Travelling and accommodation expenses                     | 231 096            | 284 088            |
| Office space                                              | 572 792            | 542 799            |
| Office expenses                                           | 417 333            | 428 271            |
| Maintenance and repairs                                   | 412 710            | 460 033            |
| Depreciation of furniture and equipment                   | 44 656             | 44 803             |
| Depreciation of data processing equipment<br>and software | 488 514            | 410 289            |
| Amortization of leasehold improvements                    | 23 721             | 23 721             |
|                                                           | <u>\$4 635 919</u> | <u>\$4 892 806</u> |

**7. APPROPRIATED SURPLUS**

The Fonds board of directors appropriated surpluses of \$1 861 856 at March, 31, 2005 (\$3 442 473 in 2004) related to the scholarships and grants that will be awarded over the coming fiscal year and the operating costs. The Fonds cannot use these amounts tied to appropriations of outside origins for other purposes without the board of director's prior consent. These appropriations break down as follows:

|                                                                             | 2005               | 2004               |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| Training scholarships                                                       | \$730 978          | \$2 392 824        |
| Partnership                                                                 |                    | 392 820            |
| Recognition of the scientific performance of<br>research centres and groups |                    | 228 734            |
| International component                                                     |                    | 40 000             |
| Scholarships and grants                                                     | 260 878            | 388 095            |
| Operating costs                                                             | 200 000            |                    |
| Start-up subsidies for young researchers                                    | 670 000            |                    |
|                                                                             | <u>\$1 861 856</u> | <u>\$3 442 473</u> |

**8. ACCOUNTS RECEIVABLE**

|                                                                               | 2005             | 2004             |
|-------------------------------------------------------------------------------|------------------|------------------|
| Ministère du Développement économique, de l'Innovation<br>et de l'Exportation |                  | \$125 000        |
| Fonds québécois de la recherche sur la nature et<br>les technologies          | \$62 225         | 122 023          |
| Fonds québécois de la recherche sur la société<br>et la culture               | 106 021          | 100 000          |
| Ministère de la Santé et des Services sociaux du Québec                       | 175 000          |                  |
| Other                                                                         | 260 109          | 248 445          |
|                                                                               | <u>\$603 355</u> | <u>\$595 468</u> |

**FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**9. FIXED ASSETS**

|                                        | 2005               |                          | 2004               |
|----------------------------------------|--------------------|--------------------------|--------------------|
|                                        | Cost               | Accumulated depreciation | Net                |
| Furniture and equipment                | \$251 354          | \$113 132                | \$138 222          |
| Leasehold improvements                 | 217 588            | 80 941                   | 136 647            |
| Data processing equipment and software | 1 569 009          | 890 960                  | 678 049            |
|                                        | <u>\$2 037 951</u> | <u>\$1 085 033</u>       | <u>\$952 918</u>   |
|                                        |                    |                          | <u>\$1 312 790</u> |

Disbursements related to the acquisition of fixed assets totalled \$206 494 (2004: \$617 981). Proceeds from the sale of fixed assets totalled \$5 700 (2004: \$-).

**10. ACCOUNTS PAYABLE AND ACCRUALS**

|                                                                   | 2005             | 2004             |
|-------------------------------------------------------------------|------------------|------------------|
| Fonds québécois de la recherche sur la société et la culture      | \$21 376         | \$31 672         |
| Fonds québécois de la recherche sur la nature et les technologies | 1 216            | 3 713            |
| Other                                                             | 542 565          | 496 277          |
|                                                                   | <u>\$565 157</u> | <u>\$531 662</u> |

**11. DEFERRED REVENUE**

|                                                                 | 2005               | 2004               |
|-----------------------------------------------------------------|--------------------|--------------------|
| Protected programs                                              | \$2 345 945        | \$2 377 689        |
| Research centres                                                |                    | 611 011            |
| Support for health research in rural and semi-rural populations | 360 000            | 360 000            |
| National emergency program                                      | 960 280            | 879 592            |
| Other                                                           | 903 881            | 208 455            |
|                                                                 | <u>\$4 570 106</u> | <u>\$4 436 747</u> |

The amounts cashed in the fiscal year for this revenue was \$4 014 090 (2004 : \$7 190 181).

**12. SPECIAL RESEARCH FUND**

This item represents amounts received from private firms for the establishment of a special research fund.

Under agreements, 86% of the interest generated by this fund 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 capital.



## FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**12. SPECIAL RESEARCH FUND** (cont'd)

The amounts are distributed as follows:

|                      | 2005                      | 2004                      |
|----------------------|---------------------------|---------------------------|
| Pharmacology         |                           |                           |
| Capital              | \$453 290                 | \$451 515                 |
| Accumulated interest | 243 291                   | 228 024                   |
|                      | <u>696 581</u>            | <u>679 539</u>            |
| Hypertension         |                           |                           |
| Capital              | 545 414                   | 543 792                   |
| Accumulated interest | 68 752                    | 82 898                    |
|                      | <u>614 166</u>            | <u>626 690</u>            |
|                      | <u><u>\$1 310 747</u></u> | <u><u>\$1 306 229</u></u> |

**Changes in Fund balance  
for the year ended March 31, 2005**

|                                                                       | 2005                      | 2004                      |
|-----------------------------------------------------------------------|---------------------------|---------------------------|
| <b>Opening balance</b>                                                | \$1 306 229               | \$1 299 219               |
| Increase                                                              |                           |                           |
| Interest on term deposits                                             | 33 967                    | 35 630                    |
| Decrease                                                              |                           |                           |
| Grants awarded                                                        | (28 090)                  | (27 196)                  |
| Administrative expenses – Fonds de la recherche<br>en santé du Québec | (1 359)                   | (1 424)                   |
| <b>Closing balance</b>                                                | <u><u>\$1 310 747</u></u> | <u><u>\$1 306 229</u></u> |

**Balance sheet  
as at March 31, 2005**

|                                            | 2005                      | 2004                      |
|--------------------------------------------|---------------------------|---------------------------|
| <b>Assets</b>                              |                           |                           |
| Current assets                             |                           |                           |
| Cash on hand                               | \$7 570                   | \$7 201                   |
| Term deposits (2.55%) and accrued interest | 1 311 558                 | 1 307 251                 |
|                                            | <u><u>\$1 319 128</u></u> | <u><u>\$1 314 452</u></u> |

## FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 12. SPECIAL RESEARCH FUND (cont'd)

**Balance sheet (cont'd)**  
**as at March 31, 2005**

|                                          | <u>2005</u>        | <u>2004</u>        |
|------------------------------------------|--------------------|--------------------|
| <b>Liabilities</b>                       |                    |                    |
| Current liabilities                      |                    |                    |
| Researcher-scholarship recipient payable | \$7 022            | \$6 799            |
| Administrative expenses payable          | 1 359              | 1 424              |
| Fund balance                             | <u>1 310 747</u>   | <u>1 306 229</u>   |
|                                          | <u>\$1 319 128</u> | <u>\$1 314 452</u> |

## 13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its 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 either joint control or significant influence by it. The Fonds 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.

## 14. COMMITMENTS

The Fonds is committed under long-term leases whose maturity dates vary until June 30, 2011 for administrative offices. These leases include a 10-year renewal option.

Lease payments for the year ended March 31, 2005 amount to \$534 738. The minimum lease payments for the next fiscal years are as follows:

|                     |                    |
|---------------------|--------------------|
| 2006                | \$470 489          |
| 2007                | 536 583            |
| 2008                | 558 542            |
| 2009                | 562 027            |
| 2010                | 592 919            |
| 2011 and thereafter | <u>758 411</u>     |
|                     | <u>\$3 478 971</u> |

## 15. FUTURE FRINGE BENEFITS

**Pension plan**

The staff members of the Fonds participate in the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Fonds' contributions charged to the year-end statement amount to \$51 066 (2004: \$46 454). The liability of the Fonds towards these Government plans is restricted to its contributions as an employer.

**FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**16. FINANCIAL INSTRUMENTS****Bank borrowing**

At March 31, 2005, the Fonds had a guaranteed bank credit line of \$5 000 000. This credit line is guaranteed by current and future receivables resulting from subsidies receivable from the Ministère du Développement économique et régional et de la Recherche. Any amounts used bear interest at the prime rate plus 0.5% annually.

**Fair value**

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

**17. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Fonds de la recherche en santé du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing the appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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 has approved the financial statements. It is assisted by the finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Alain Beaudet  
President and Chief Executive Officer

Claude Brouillette  
Assistant to the Chief Executive Officer

Montréal, June 3, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds de la recherche en santé du Québec as at March 31, 2005 and the statements of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 3, 2005

**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /**  
**TRAVEL AGENTS' COLLECTIVE SECURITY FUND**  
(R.S.Q., c. A-10)

REVENUE AND EXPENDITURE AND DEFICIT

|                                                     | Period from April 1 to November 10, 2004 |               |               | Fiscal year ended March 31, 2004 |               |               |
|-----------------------------------------------------|------------------------------------------|---------------|---------------|----------------------------------|---------------|---------------|
|                                                     | Retailers                                | Wholesalers   | Total         | Retailers                        | Wholesalers   | Total         |
| <b>REVENUE</b>                                      |                                          |               |               |                                  |               |               |
| Investment (losses) income                          | \$86 252                                 | \$20 123      | \$106 375     | \$(147 020)                      | \$62 035      | \$(84 985)    |
| Cancelled contributions<br>(Notes 3 and 6)          | 10 725                                   | 10 750        | 21 475        | 33 433                           | (44 904)      | (11 471)      |
|                                                     | 96 977                                   | 30 873        | 127 850       | (113 587)                        | 17 131        | (96 456)      |
| <b>EXPENDITURE</b>                                  |                                          |               |               |                                  |               |               |
| Claims and trust charges                            | (12 407)                                 | 196 203       | 183 796       | 54 156                           | 43 797        | 97 953        |
| Administrative expenses –<br>Gouvernement du Québec | 26 600                                   | 3 278         | 29 878        | 43 571                           | 5 779         | 49 350        |
| Interest on long-term debt                          |                                          | 142 109       | 142 109       |                                  | 368 014       | 368 014       |
|                                                     | 14 193                                   | 341 590       | 355 783       | 97 727                           | 417 590       | 515 317       |
| <b>EXCESS<br/>EXPENDITURE<br/>OVER REVENUE</b>      | 82 784                                   | (310 717)     | (227 933)     | (211 314)                        | (400 459)     | (611 773)     |
| <b>(DEFICIT) SURPLUS<br/>BEGINNING OF YEAR</b>      | (71 746)                                 | (5 865 335)   | (5 937 081)   | 139 568                          | (5 464 876)   | (5 325 308)   |
| <b>(DEFICIT) SURPLUS<br/>END OF YEAR</b>            | \$11 038                                 | \$(6 176 052) | \$(6 165 014) | \$(71 746)                       | \$(5 865 335) | \$(5 937 081) |

**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' COLLECTIVE SECURITY FUND**
**COLLECTIVE SECURITY  
BALANCE SHEET**

|                                                                                                                         | November 10, 2004  |                    |                    | March 31, 2004     |                    |                    |
|-------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                                                         | Retailers          | Wholesalers        | Total              | Retailers          | Wholesalers        | Total              |
| <b>ASSETS</b>                                                                                                           |                    |                    |                    |                    |                    |                    |
| <b>Current assets</b>                                                                                                   |                    |                    |                    |                    |                    |                    |
| Cash on hand                                                                                                            | \$105 915          | \$320 767          | \$426 682          | \$56 061           | \$156 628          | \$212 689          |
| Term deposits<br>(rate: 1.40%)                                                                                          |                    | 1 700 000          | 1 700 000          |                    | 1 700 000          | 1 700 000          |
| Demand deposits in the<br>General Fund of the<br>Caisse de dépôt et<br>placement du<br>Québec - at cost                 | 166 309            |                    | 166 309            | 67 004             |                    | 67 004             |
| Investment revenue<br>receivable                                                                                        | 2 485              | 23 982             | 26 467             | 15 582             | 4 000              | 19 582             |
| Accounts receivable                                                                                                     | 25 600             | 265 250            | 290 850            | 115 800            | 574 700            | 690 500            |
| Additional contributions<br>receivable                                                                                  |                    | 5 000              | 5 000              |                    | 55 000             | 55 000             |
|                                                                                                                         | <u>300 309</u>     | <u>2 314 999</u>   | <u>2 615 308</u>   | <u>254 447</u>     | <u>2 490 328</u>   | <u>2 744 775</u>   |
| <b>Participation deposits in a<br/>specific fund of the<br/>Caisse de dépôt et<br/>placement du Québec<br/>(Note 4)</b> | 2 684 771          |                    | 2 684 771          | 2 684 771          |                    | 2 684 771          |
| <b>Basic contributions<br/>refunded in advance</b>                                                                      | <u>197 250</u>     | <u>27 500</u>      | <u>224 750</u>     | <u>151 750</u>     | <u>17 500</u>      | <u>169 250</u>     |
|                                                                                                                         | <u>\$3 182 330</u> | <u>\$2 342 499</u> | <u>\$5 524 829</u> | <u>\$3 090 968</u> | <u>2 507 828</u>   | <u>\$5 598 796</u> |
| <b>LIABILITIES</b>                                                                                                      |                    |                    |                    |                    |                    |                    |
| <b>Current liabilities</b>                                                                                              |                    |                    |                    |                    |                    |                    |
| Claims and charge payable                                                                                               | \$50 464           | \$171 024          | \$221 488          | \$12 517           | \$17 745           | \$30 262           |
| Interest accrued on the long-<br>term debt                                                                              |                    | 510 123            | 510 123            |                    | 368 014            | 368 014            |
| Basic contributions<br>repayable                                                                                        | <u>12 000</u>      | <u>5 000</u>       | <u>17 000</u>      |                    |                    |                    |
|                                                                                                                         | <u>62 464</u>      | <u>686 147</u>     | <u>748 611</u>     | <u>12 517</u>      | <u>385 759</u>     | <u>398 276</u>     |
| <b>Long-term debt<br/>(Note 5)</b>                                                                                      |                    | 6 000 000          | 6 000 000          |                    | 6 000 000          | 6 000 000          |
| <b>Basic contributions<br/>(Note 6)</b>                                                                                 | 3 108 828          | 1 832 404          | 4 941 232          | 3 150 197          | 1 987 404          | 5 137 601          |
| <b>(DEFICIT) SURPLUS</b>                                                                                                | <u>11 038</u>      | <u>(6 176 052)</u> | <u>(6 165 014)</u> | <u>(71 746)</u>    | <u>(5 865 335)</u> | <u>(5 937 081)</u> |
|                                                                                                                         | <u>\$3 182 330</u> | <u>\$2 342 499</u> | <u>\$5 524 829</u> | <u>\$3 090 968</u> | <u>\$2 507 828</u> | <u>\$5 598 796</u> |

**CONTINGENCY (Note 9)**
**TERMINATION OF ACTIVITIES (Note 10)**

Yvan Turcotte  
President, Office de la  
protection du consommateur

**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' COLLECTIVE SECURITY FUND**

NOTES TO FINANCIAL STATEMENTS  
November 10, 2004

**1. COMPOSITION AND OPERATION**

The Travel Agents' Collective Security Fund consists of security in amounts determined by Government regulation under the Travel Agents Act (R.S.Q., c. A-10), and it is administered by the President of the Office de la protection du consommateur. The purpose of the security is to guarantee compliance with the Act and its regulations.

**2. ACCOUNTING POLICIES**

The Fund's financial statements were prepared by management in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgments and estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Funds' cash flows during the year.

**Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec**

Participation deposits are recorded at acquisition cost.

**Administrative expenses**

Administrative expenses, except those pertaining to investment, collection and disbursement activities and to fund operation accounting, are borne by the Gouvernement du Québec and are not charged to the Travel Agents' Collective Security Fund.

**3. CANCELLED CONTRIBUTIONS**

Cancelled contributions represent, for travel agents having ceased their operations, basic contributions that were never claimed by the agents within the prescribed time frame and those for which consumer claims exceeded this contribution.

**4. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT  
ET PLACEMENT DU QUÉBEC**

Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec are expressed in units. Units may be refunded with prior notice in accordance with the terms of payment of the Caisse at the market value of the net equity of the fund at the end of each month.

|                     | November 10, 2004   |             |
|---------------------|---------------------|-------------|
|                     | Collective security |             |
|                     | Retailers           | Wholesalers |
|                     |                     | Total       |
| Number of units     | 3 094               | 3 094       |
| Cost of units       | \$2 684 771         | \$2 684 771 |
| Fair value of units | \$2 858 269         | \$2 858 269 |
| Fair value per unit | \$924               | \$924       |

**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' COLLECTIVE SECURITY FUND**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
November 10, 2004

**4. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT  
ET PLACEMENT DU QUÉBEC (cont'd)**

|                     | March 31, 2004      |             |
|---------------------|---------------------|-------------|
|                     | Collective security |             |
|                     | Retailers           | Wholesalers |
|                     |                     | Total       |
| Number of units     | 3 094               | 3 094       |
| Cost of units       | \$2 684 771         | \$2 684 771 |
| Fair value of units | \$2 857 385         | \$2 857 385 |
| Fair value per unit | \$924               | \$924       |

For collective retailers' securities, there were no acquisitions in the past two fiscal years and there will be no disposal in the fiscal year ending November 10, 2004 (March 31, 2004: \$142 308). The loss on the disposal of participation deposit units for the fiscal year ended March 31, 2004 was \$2 878.

**5. LONG-TERM DEBT**

|                                                                                                                    | November 10,<br>2004 | March 31,<br>2004 |
|--------------------------------------------------------------------------------------------------------------------|----------------------|-------------------|
| Gouvernement du Québec advance, bearing interest at the National Bank of Canada prime rate, expiring in March 2009 | \$6 000 000          | \$6 000 000       |

**6. BASIC CONTRIBUTIONS**

|                                                | 2004        | 2003        |
|------------------------------------------------|-------------|-------------|
| <b>Retailers</b>                               |             |             |
| Opening balance                                | \$3 150 197 | \$3 152 133 |
| Contributions received                         | 91 961      | 214 524     |
| Contributions refunded                         | (122 605)   | (183 027)   |
| Cancelled contributions transferred to revenue | (10 725)    | (33 433)    |
| Closing balance                                | \$3 108 828 | \$3 150 197 |
| <b>Wholesalers</b>                             |             |             |
| Opening balance                                | \$1 987 404 | \$1 981 822 |
| Contributions received                         | 46 500      | 109 000     |
| Contributions refunded                         | (190 750)   | (148 322)   |
| Cancelled contributions transferred to revenue | (10 750)    | 44 904      |
| Closing balance                                | \$1 832 404 | \$1 987 404 |



**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' COLLECTIVE SECURITY FUND**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
November 10, 2004

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**7. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future. The fair value of the long-term debt is equal to their book value.

**8. RELATED PARTY TRANSACTIONS**

In addition to the transactions disclosed in its financial statements and recorded at exchange value, the Fund 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 either joint control or significant influence by it. The Fund did not carry out any business transactions 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.

**9. CONTINGENCY**

A collective claim was tabled in the Superior Court on October 9, 2002 against a retailer and a wholesaler for approximately \$2.5 M. The amount of the loss the Fund might eventually sustain cannot reasonably be estimated. Consequently, no provision was recorded.

**10. TERMINATION OF ACTIVITIES**

On November 11, 2004, the Regulation to amend the Regulation respecting travail agents came into effect. This new regulation implements the Travel Agents' Collective Security Fund, designed to compensate or reimburse a travel agent's customers. Under this new regulation, Travel Agents' Collective Security Fund assets and liabilities were transferred to the Compensation Fund for Customers of Travel Agents on November 11, 2004. Further, the basic contributions to the Travel Agents' Collective Security Fund will be repaid within five years.

**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' COLLECTIVE SECURITY FUND****MANAGEMENT'S REPORT**

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The financial statements of the Travel Agents' Collective Security Fund were drawn up by management, which is responsible for their preparation and presentation, as well as for the significant estimates and judgments included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

In accordance with 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 use in preparing reliable financial statements.

The Fund's management recognizes that it is responsible for conducting its affairs in accordance with the laws and regulations that govern it.

The Auditor General of Québec has conducted an audit of the Fund's financial statements in accordance with generally accepted auditing standards in Canada, and his report states the nature and scope of his audit as well as his opinion. The Auditor General may, without restriction, meet with management to discuss any matter concerning his audit.

André Derome  
Coordinator, Licensing Department

Yvan Turcotte  
President, Office de la  
protection du consommateur

Québec, September 1, 2005

**FONDS DES CAUTIONNEMENTS COLLECTIFS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' COLLECTIVE SECURITY FUND**

**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Travel Agents' Collective Security Fund as at November 10, 2004 and the statements of revenue and expenditure and deficit for the period from April 1 to November 10, 2004. 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 generally accepted auditing standards in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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 this Fund as at November 10, 2004, and the results of its operations and its cash flows for the period from April 1 to November 10, 2004 in accordance with generally accepted accounting principles 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 General of Québec

Québec, September 1, 2005

**FONDS DES CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES /**  
**TRAVEL AGENTS' INDIVIDUAL SECURITY FUND**  
(R.S.Q., c. A-10)

INVESTMENT INCOME AND DEFICIT  
for the fiscal year ended March 31, 2005

|                                                            | <u>2005</u>              | <u>2004</u>               |
|------------------------------------------------------------|--------------------------|---------------------------|
| Investment (losses) income                                 | \$52 758                 | \$(157 460)               |
| Cancellation of balance owing to Consolidated Revenue Fund | <u>52 758</u>            | <u>29 523</u>             |
|                                                            | (127 937)                | (127 937)                 |
| <b>DEFICIT, BEGINNING OF YEAR</b>                          | <u>(127 937)</u>         | <u></u>                   |
| <b>DEFICIT, END OF YEAR</b>                                | <u><u>\$(75 179)</u></u> | <u><u>\$(127 937)</u></u> |

**FONDS DES CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGE /  
TRAVEL AGENTS' INDIVIDUAL SECURITY FUND**

BALANCE SHEET  
as at March 31, 2005

|                                                                                                             | <u>2005</u>        | <u>2004</u>        |
|-------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                                                               |                    |                    |
| <b>Current assets</b>                                                                                       |                    |                    |
| Cash on hand                                                                                                | \$1 819 874        | \$1 196 020        |
| Demand deposits in the General Fund of the Caisse<br>de dépôts et placement du Québec – at cost             | 69 942             | 22 001             |
| Investment revenue receivable                                                                               | 7 113              | 5 529              |
| Bonds on deposit (Note 3) (fair value:<br>2005: \$51 728; 2004: \$25 380)                                   | <u>51 623</u>      | <u>25 000</u>      |
|                                                                                                             | 1 948 552          | 1 248 550          |
| <b>Bonds on deposit (Note 3) (fair value:<br/>2005: \$800 181; 2004: \$556 369)</b>                         | 814 987            | 550 158            |
| <b>Participation deposits in a specific fund of the Caisse<br/>de dépôt et placement du Québec (Note 4)</b> | <u>954 383</u>     | <u>954 383</u>     |
|                                                                                                             | <u>\$3 717 922</u> | <u>\$2 753 091</u> |
| <br><b>LIABILITIES</b>                                                                                      |                    |                    |
| <b>Individual security of travel agents (Note 5)</b>                                                        | \$3 793 101        | \$2 881 028        |
| <b>DEFICIT</b>                                                                                              | <u>(75 179)</u>    | <u>(127 937)</u>   |
|                                                                                                             | <u>\$3 717 922</u> | <u>\$2 753 091</u> |

Yvan Turcotte  
President, Office de la  
protection du consommateur

**FONDS DES CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' INDIVIDUAL SECURITY FUND**

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

**1. COMPOSITION AND OPERATION**

The Travel Agents' Individual Security Fund consists of security in amounts determined by Government regulation under the Travel Agents Act (R.S.Q., c. A-10), and is administered by the President of the Office de la protection du consommateur. The purpose of the security is to guarantee compliance with the Act and its regulations.

Investment revenue earned from cash deposited as individual security is paid into the Consolidated Revenue Fund. Interest coupons attached to bonds held on deposit remain the depositor's property and are returned to the depositor on request.

**2. ACCOUNTING POLICIES**

The Fund's financial statements were prepared by management in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgments and estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Funds' cash flows during the year.

**Bonds on deposit**

Bonds deposited as individual security are shown at par value.

**Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec**

Participation deposits are recorded at acquisition cost.

**3. BONDS ON DEPOSIT**

Acquisitions during the fiscal year ended March 31, 2005 amounted to \$361 452 (2004: \$219 035) and disposals to \$70 000 (2004: \$49 500).

**4. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT  
ET PLACEMENT DU QUÉBEC**

Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec are expressed in units. Units may be refunded with prior notice in accordance with the terms of payment of the Caisse at the market value of the net equity of the fund at the end of each month.

|                                 | 2005        | 2004        |
|---------------------------------|-------------|-------------|
| Number of units                 | 978         | 978         |
| Cost of units                   | \$954 383   | \$954 383   |
| Fair value of units at March 31 | \$1 050 961 | \$1 019 096 |
| Fair value per unit at March 31 | \$1 075     | \$1 042     |

For collective retailers' securities, there were no acquisitions in the past two fiscal years and there will be no disposal in the fiscal year ending March 31, 2005 (2004: \$135 643). The loss on the disposal of participation deposit units for the fiscal year ended March 31, 2004 was \$9 540.

**FONDS DES CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' INDIVIDUAL SECURITY FUND**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**5. INDIVIDUAL SECURITY OF TRAVEL AGENTS**

|                                                                 | <u>2005</u>               | <u>2004</u>                 |
|-----------------------------------------------------------------|---------------------------|-----------------------------|
| <b>Securities in force</b>                                      |                           |                             |
| Opening balance                                                 | \$2 881 028               | \$2 678 849                 |
| Security deposited                                              | <u>1 040 452</u>          | <u>644 305</u>              |
|                                                                 | <u>3 921 480</u>          | <u>3 323 154</u>            |
| Claims and trust fees                                           | (5 130)                   | (48 483)                    |
| Security refunded                                               | (148 249)                 | (83 643)                    |
| Bonds returned and replaced by<br>Individual guarantee policies | <u>(205 000)</u>          | <u>(310 000)</u>            |
|                                                                 | <u>(358 379)</u>          | <u>(442 126)</u>            |
| Closing balance                                                 | 3 563 101                 | 2 881 028                   |
| <b>Prepaid securities**</b>                                     | <u>230 000</u>            | <u>                    </u> |
|                                                                 | <u><u>\$3 793 101</u></u> | <u><u>\$2 881 028</u></u>   |

\*\* Prepaid securities include cash securities received by the Fund for licences that were not valid at March 31, 2005.

Security provided by travel agents in the form of individual guarantee policies is estimated at \$28 890 000 as at March 31, 2005 (\$27 157 500 as at March 31, 2004) with \$25 730 000 having a valid permit as at March 31, 2005 (\$22 327 500 as at March 31, 2004). This estimate includes guarantee policies from agencies that have ceased operations within the last two years and are thus still liable for claims.

**6. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

**7. RELATED PARTY TRANSACTIONS**

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the Fund 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 either joint control or significant influence by it. The Fund did not carry out any business transactions 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.

**FONDS DES CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' INDIVIDUAL SECURITY FUND****MANAGEMENT'S REPORT**

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The financial statements of the Travel Agents' Individual Security Fund were drawn up by management, which is responsible for their preparation and presentation, as well as for the significant estimates and judgments included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

In accordance with its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and in a timely manner, are duly approved and can be used to prepare accurate financial statements.

The Fund's management recognizes that it is responsible for conducting its affairs in accordance with the laws and regulations that govern it.

The Auditor General of Québec has conducted an audit of the Fund's financial statements in accordance with generally accepted auditing standards in Canada, and his report states the nature and scope of his audit as well as his opinion. The Auditor General may, without restriction, meet with management to discuss any matter concerning his audit.

André Derome  
Coordinator, Licensing Department

Yvan Turcotte  
President, Office de la protection  
du consommateur

Québec, September 1, 2005



**FONDS DES CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES /  
TRAVEL AGENTS' INDIVIDUAL SECURITY FUND**

AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheets of the Travel Agents' Individual Security Fund as at March 31, 2005 and the statements of investment income and deficit for the 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 generally accepted auditing standards in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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 Fund as at March 31, 2005, and the results of its operations and its cash flows for the fiscal year then ended in accordance with generally accepted accounting principles 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 General of Québec

Québec, September 1, 2005

**FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES**  
(R.S.Q., c. A-10)

REVENUE AND EXPENDITURE AND DEFICIT  
for the period from November 11, 2004 to March 31, 2005

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**REVENUE**

|                                               |                  |
|-----------------------------------------------|------------------|
| Contributions from customers of travel agents | \$2 829 046      |
| Contributions from wholesalers                | 847 916          |
| Investment income                             | 72 904           |
| Cancelled contributions (Note 3)              | <u>5 000</u>     |
|                                               | <u>3 754 866</u> |

**EXPENDITURE**

|                                                |                  |
|------------------------------------------------|------------------|
| Claims and trust charges                       | 918 353          |
| Administrative expenses – Government of Québec | 45 860           |
| Interest on long-term debt                     | <u>98 507</u>    |
|                                                | <u>1 062 720</u> |

|                                        |           |
|----------------------------------------|-----------|
| <b>EXCESS REVENUE OVER EXPENDITURE</b> | 2 692 146 |
|----------------------------------------|-----------|

|                                            |                    |
|--------------------------------------------|--------------------|
| <b>DEFICIT, BEGINNING OF YEAR</b> (Note 1) | <u>(6 165 014)</u> |
|--------------------------------------------|--------------------|

|                             |                             |
|-----------------------------|-----------------------------|
| <b>DEFICIT, END OF YEAR</b> | <u><u>\$(3 472 868)</u></u> |
|-----------------------------|-----------------------------|

## FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

## BALANCE SHEET

|                                                                                                             | March 31,<br>2005  | November 11,<br>2004<br>(Note 1) |
|-------------------------------------------------------------------------------------------------------------|--------------------|----------------------------------|
| <b>ASSETS</b>                                                                                               |                    |                                  |
| <b>Current assets</b>                                                                                       |                    |                                  |
| Cash on hand                                                                                                | \$1 873 820        | \$426 682                        |
| Term deposit (rate: 1.40%)                                                                                  | 1 700 000          | 1 700 000                        |
| Demand deposits in the General Fund of the Caisse<br>de dépôt et placement du Québec – at cost              | 208 238            | 166 309                          |
| Investment income receivable                                                                                | 24 182             | 26 467                           |
| Accounts receivable (Note 4)                                                                                | 2 365 180          | 290 850                          |
| Additional contributions receivable                                                                         | 2 500              | 5 000                            |
|                                                                                                             | <u>6 173 920</u>   | <u>2 615 308</u>                 |
| <b>Participation deposits in a specific fund of the<br/>Caisse de dépôt et placement du Québec (Note 5)</b> | 2 684 771          | 2 684 771                        |
| <b>Basic contributions refunded in advance</b>                                                              | <u>224 750</u>     | <u>224 750</u>                   |
|                                                                                                             | <u>\$9 083 441</u> | <u>\$5 524 829</u>               |
| <b>LIABILITIES</b>                                                                                          |                    |                                  |
| <b>Current liabilities</b>                                                                                  |                    |                                  |
| Clams and charge payable                                                                                    | \$1 102 023        | \$221 488                        |
| Interest accrued on the long-term debt                                                                      | 608 630            | 510 123                          |
| Basic contributions repayable                                                                               | 12 250             | 17 000                           |
|                                                                                                             | <u>1 722 903</u>   | <u>748 611</u>                   |
| <b>Long-term debt (Note 6)</b>                                                                              | 6 000 000          | 6 000 000                        |
| <b>Basic contributions (Note 7)</b>                                                                         | 4 833 406          | 4 941 232                        |
| <b>DEFICIT</b>                                                                                              | <u>(3 472 868)</u> | <u>(6 165 014)</u>               |
|                                                                                                             | <u>\$9 083 441</u> | <u>\$5 524 829</u>               |
| <b>CONTINGENCY (Note 10)</b>                                                                                |                    |                                  |

Yvan Turcotte  
 President of the Office de la  
 protection du consommateur

**FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES**

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

**1. CONSTITUTION, PURPOSE AND FINANCING**

The Fonds d'indemnisation des clients des agents de voyages 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). This Act is administered by the President of the Office de la protection du consommateur. This purpose of this fund is to guarantee the indemnification or reimbursement of customers of a travel agent required to contribute to the fund, if the travel agent's individual security is insufficient.

The amounts required for Fonds 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.

In keeping with section 37 of the Regulation respecting travel agents (R.S.Q., c. A-10, r. 1), the assets and liabilities of the collective security funds of travel agents were transferred, on November 11, 2004 to the Fonds d'indemnisation des clients des agents de voyages. The elements transferred break down as follows:

**ASSETS**

|            |                    |
|------------|--------------------|
| Short-term | \$2 615 308        |
| Long-term  | <u>2 909 521</u>   |
|            | <u>\$5 524 829</u> |

**LIABILITIES**

|            |                   |
|------------|-------------------|
| Short-term | \$748 611         |
| Long-term  | <u>10 941 232</u> |
|            | 11 689 843        |

**DEFICIT**

|                    |
|--------------------|
| <u>(6 165 014)</u> |
| <u>\$5 524 829</u> |

**2. ACCOUNTING POLICIES**

The Fund's financial statements were prepared by management in accordance with generally accepted accounting principles in Canada. These statements include amounts based on best judgments and estimates. The statement of cash flows is not shown as it would not provide any useful supplementary information regarding the Funds' cash flows during the year.

**Participation deposits in the General Fund of the Caisse de dépôt et placement du Québec**

Participation deposits are recorded at acquisition cost.

**3. CANCELLED CONTRIBUTIONS**

Cancelled contributions represent, for travel agents having ceased their operations, basic contributions that were never claimed by the agents within the prescribed time frame and those for which consumer claims exceeded this contribution.

## FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. ACCOUNTS RECEIVABLE**

|                            | March 31,<br>2005  | November 11,<br>2004 |
|----------------------------|--------------------|----------------------|
| Provisional administrators | \$177 000          | \$290 850            |
| Travel agencies            | 2 188 180          |                      |
|                            | <u>\$2 365 180</u> | <u>\$290 850</u>     |

The amounts receivable from travel agencies cover the period ending March 31, 2005. However, they are required to pay their remittances every three months.

**5. PARTICIPATION DEPOSITS IN A SPECIFIC FUND OF THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

Participation deposits in a specific fund of the Caisse de dépôt et placement du Québec are expressed in units. Units may be refunded with prior notice in accordance with the terms of payment of the Caisse at the market value of the net equity of the fund at the end of each month.

|                      | March 31,<br>2004 | November 11,<br>2004 |
|----------------------|-------------------|----------------------|
| Number of units      | 3 094             | 3 094                |
| Cost of units        | \$2 684 771       | \$2 684 771          |
| Fair value of units  | \$2 938 931       | \$2 857 269          |
| Fair value per units | \$950             | \$924                |

There was no acquisition or disposition in the fiscal year.

**6. LONG-TERM DEBT**

|                                                                                                                    | March 31,<br>2005  | November 11,<br>2004 |
|--------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| Gouvernement du Québec advance, bearing interest at the National Bank of Canada prime rate, expiring in March 2009 | <u>\$6 000 000</u> | <u>\$6 000 000</u>   |

**7. BASIC CONTRIBUTIONS – COLLECTIVE SECURITY**

|             | March 31,<br>2005  | November 11,<br>2004 |
|-------------|--------------------|----------------------|
| Retailers   | \$3 053 406        | \$3 108 828          |
| Wholesalers | 1 780 000          | 1 832 404            |
| Total       | <u>\$4 833 406</u> | <u>\$4 941 232</u>   |

**FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**8. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future. The fair value of the long-term debt is equal to their book value.

**9. RELATED PARTY TRANSACTIONS**

In addition to the transactions disclosed in its financial statements and recorded at exchange value, the Fund 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 either joint control or significant influence by it. The Fund did not carry out any business transactions 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.

**10. CONTINGENCY**

A collective claim was tabled in the Superior Court on October 9, 2002 against a retailer and a wholesaler for approximately \$2.5 M. The amount of the loss the Fund might eventually sustain cannot reasonably be estimated. Consequently, no provision was recorded.

Two major airlines went bankrupt during the fiscal year. The balance sheet item "Claims and fees payable" includes \$895 000 based on an estimate of the liabilities linked to the claims the Fonds had received by the time the financial statements were prepared. The Fonds is unable to estimate the claims it has not yet received. Consumers suffering damages have no time limit to submit their claims. Further, the maximum paid by the Fonds per event cannot exceed \$3 000 000.

**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 were drawn up by management, which is responsible for their preparation and presentation, as well as for the significant estimates and judgments included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

In accordance with its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly and in a timely manner, are duly approved and can be used to prepare accurate financial statements.

The Fund's management recognizes that it is responsible for conducting its affairs in accordance with the laws and regulations that govern it.

The Auditor General of Québec has conducted an audit of the Fund's financial statements in accordance with generally accepted auditing standards in Canada, and his report states the nature and scope of his audit as well as his opinion. The Auditor General may, without restriction, meet with management to discuss any matter concerning his audit.

André Derome  
Coordinator, Licensing Department

Yvan Turcotte  
President of the Office de la  
protection du consommateur

Québec, September 1, 2005

**FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES****AUDITOR'S REPORT**

---

To the National Assembly

I have audited the balance sheets of the Fonds d'indemnisation des clients des agents de voyages as at November 11, 2004 and as at March 31, 2005 as well as the statements of revenue and expenditure and deficit for the period from November 11, 2004 to March 31, 2005. 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 generally accepted auditing standards in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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 this Fund as at November 11, 2004 and as at March 31, 2005, and the results of its operations and its cash flows for the period from November 11, 2004 to March 31, 2005 in accordance with generally accepted accounting principles in Canada.

Renaud Lachance, CA  
Auditor General of Québec

Québec, September 1, 2005



**FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**  
(R.S.Q., c. C-73.1)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended December 31, 2004

|                                        | <u>2004</u>        | <u>2003</u>        |
|----------------------------------------|--------------------|--------------------|
| <b>REVENUE</b>                         |                    |                    |
| Dues                                   | \$228 390          | \$209 410          |
| Investment income                      | 250 425            | 303 483            |
| Indemnities                            | <u>41 000</u>      | <u>41 000</u>      |
|                                        | <u>478 815</u>     | <u>553 893</u>     |
| <b>EXPENDITURE</b>                     |                    |                    |
| Management fees                        | 90 402             | 89 242             |
| Indemnities                            | 55 267             |                    |
| Professional fees                      | 11 727             | 13 151             |
| Travel and accommodation expenses      | 12 544             | 8 263              |
| Directors' fees                        | 8 929              | 5 962              |
| Publications                           | 2 648              | 10 354             |
| Office expenses                        | 7 509              | 8 584              |
| Communication and public relations     | <u>61 069</u>      | <u>45 852</u>      |
|                                        | <u>250 095</u>     | <u>181 408</u>     |
| <b>EXCESS REVENUE OVER EXPENDITURE</b> | 228 720            | 372 485            |
| <b>SURPLUS, BEGINNING OF YEAR</b>      | <u>4 935 668</u>   | <u>4 563 183</u>   |
| <b>SURPLUS, END OF YEAR</b>            | <u>\$5 164 388</u> | <u>\$4 935 668</u> |

**FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**BALANCE SHEET  
as at December 31, 2004

|                                    | <u>2004</u>        | <u>2003</u>        |
|------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                      |                    |                    |
| <b>Current assets</b>              |                    |                    |
| Cash on hand                       | \$98 474           | \$94 523           |
| Investments                        | 5 100 275          | 4 807 547          |
| Accounts receivable                | 183 804            | 172 097            |
| Accrued interest                   | 50 866             | 59 294             |
| Prepaid expenses                   | <u>4 804</u>       | <u>4 804</u>       |
|                                    | <u>\$5 438 223</u> | <u>\$5 138 265</u> |
| <b>LIABILITIES</b>                 |                    |                    |
| <b>Current liabilities</b>         |                    |                    |
| Accounts payable and accruals      | \$27 705           | \$24 717           |
| Revenue collected in advance       | 192 130            | 177 880            |
| Allowance for indemnities (Note 4) | <u>54 000</u>      | <u>177 880</u>     |
|                                    | 273 835            | 202 597            |
| <b>SURPLUS (Note 5)</b>            | <u>5 164 388</u>   | <u>4 935 668</u>   |
|                                    | <u>\$5 438 223</u> | <u>\$5 138 265</u> |

**CONTINGENCY (Note 7)**

On behalf of the Board of Directors,  
Paul Mayer  
Lise Légaré

## FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

### NOTES TO FINANCIAL STATEMENTS December 31, 2004

#### 1. CONSTITUTION AND PURPOSE

The Fonds d'indemnisation du courtage immobilier 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 to be 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

The financial statements of the Fonds were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of financial position is not shown as it would not provide any useful additional information regarding the Fonds' cash flow during the year.

##### Investments

Bonds are entered at amortized cost. Discounts and premiums are amortized according to the straight-line method over the remaining term of each bond certificate. Amortization of bond discounts and premiums is entered as investment income.

#### 3. FINANCIAL INSTRUMENTS

At December 31, 2004, the market value of investments was \$5 653 825 (December 31, 2003: \$5 255 190). These investments bear interest at rates varying between 2.8% and 8.5%.

The fair value of the other financial instruments is equivalent to their book value, given that they mature in the near future.

#### 4. PROVISION FOR CLAIMS

The Fonds' policy, on receiving a duly sworn claim, is to provide for the amount claimed to a maximum of \$15 000 and to maintain the provision until the board of directors' final decision.

|                                        | 2004     | 2003     |
|----------------------------------------|----------|----------|
| Opening balance                        |          | \$41 000 |
| Provision for claim for the year       | \$54 000 |          |
| Cancellation of claims from past years |          | (41 000) |
|                                        | 54 000   | (41 000) |
| Closing balance                        | \$54 000 |          |

#### 5. 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, 2004, the surplus, which includes all interest earned since the establishment of the Fonds, amounts to \$2 819 903 (December 31, 2003: \$2 569 478).

**FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

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**6. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements, 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 either joint control or significant influence by it. The Fonds 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.

**7. CONTINGENCY**

Amendments to the Real Estate Brokerage Act, which were passed and came into effect on December 17, 2004, allow the Association des courtiers et agents immobiliers du Québec (ACAIQ) to create an insurance fund.

When the ACAIQ constitutes an insurance fund in keeping with the Real Estate Brokerage Act (R.S.Q., c. C-73.1), the Act stipulates that the Fonds d'indemnisation du courtage immobilier must pay, within three months, any amount exceeding \$2 500 000 of its equity level established the fifteenth day preceding its payment.

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**MANAGEMENT'S REPORT**

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The financial statements of the Fonds d'indemnisation du courtage immobilier were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

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 the auditing standards that are generally accepted in Canada. 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.

Claudie Tremblay  
Fund Secretary

Richard Cardinal  
Fund Comptroller

Montréal, February 18, 2005

**FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds d'indemnisation du courtage immobilier as at December 31, 2004 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, February 18, 2005

**FONDS EN FIDÉICOMMIS**  
(R.S.Q., c. D-5)

BALANCE SHEET  
as at March 31, 2005  
(in thousand of dollars)

|                                                                                 | <u>2005</u>    | <u>2004</u>    |
|---------------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                                   |                |                |
| Cash on hand                                                                    | 1 245          | 1 623          |
| Securities held                                                                 |                |                |
| Bond holders                                                                    | 15 659         | 14 985         |
| Treasury bills                                                                  |                | 1 753          |
| Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment | <u>387 610</u> | <u>393 299</u> |
|                                                                                 | <u>404 514</u> | <u>411 660</u> |
| <b>LIABILITIES</b>                                                              |                |                |
| Deposits                                                                        |                |                |
| Goods and services tax                                                          | <u>312 893</u> | <u>307 769</u> |
| Deposits, guarantees, etc.                                                      |                |                |
| Corporations, organizations and individuals                                     | 26 919         | 25 283         |
| Officers of the law                                                             | 53 138         | 68 570         |
| Municipalities                                                                  | <u>11 564</u>  | <u>10 038</u>  |
|                                                                                 | <u>91 621</u>  | <u>103 891</u> |
|                                                                                 | <u>404 514</u> | <u>411 660</u> |

François Tardif  
Administrator, Fonds en fidéicommis

Jean Houde  
Deputy Minister of Finance

## FONDS EN FIDÉICOMMIS

CHANGE IN DEPOSITS  
for the fiscal year ended March 31, 2005  
(in thousand of dollars)

|                                             | Balance at<br>March 31,<br>2004 | Increase   | Decrease   | Balance at<br>March 31,<br>2005 |
|---------------------------------------------|---------------------------------|------------|------------|---------------------------------|
| Goods and services tax                      | 307 769                         | 12 757 926 | 12 752 802 | 312 893                         |
| Deposits, guarantees, etc.                  |                                 |            |            |                                 |
| Corporations, organizations and individuals | 25 283                          | 89 273     | 87 637     | 26 919                          |
| Officers of the law                         | 68 570                          | 99 151     | 114 583    | 53 138                          |
| Municipalities                              | 10 038                          | 4 918      | 3 392      | 11 564                          |
|                                             | 103 891                         | 193 342    | 205 612    | 91 621                          |
|                                             | 411 660                         | 12 951 268 | 12 958 414 | 404 514                         |

**FONDS EN FIDÉICOMMIS****NOTES TO FINANCIAL STATEMENT**

March 31, 2005

(in thousand of dollars)

**1. NATURE OF THE FONDS EN FIDÉICOMMIS AND ADMINISTRATIVE POLICIES**

The Fonds en fidéicomis comprises:

- amounts of money and securities held for the purposes of deposits, sureties, guarantees, etc. paid under statutes, regulations, guidelines and agreements by corporations, organizations, individuals, officers of the law and municipalities. These deposits are made with the Ministère des Finances, which is a general deposit office under the Deposit Act (R.S.Q., c. D-5);
- amounts paid and credited for inputs administered for the Government of Canada as goods and services tax under an agreement with the Gouvernement du Québec.

Income from the securities held is remitted directly to the depositors of these securities and the administrative expenses of the Fonds are paid by the Consolidated Revenue Fund. These transactions are not presented in the financial statements.

**2. ACCOUNTING POLICIES**

The financial statements were prepared by management in keeping with the accounting principles generally recognized in Canada.

The securities held are presented at face value since they are remitted to the depositors at this value.

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds en fidéicomis as at March 31, 2005 and the statement of change in deposits for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds en fidéicomis as at March 31, 2005 and the change in deposits 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 General of Québec

Québec, June 17, 2005



**FONDS NATIONAL DE FORMATION DE LA MAIN-D'ŒUVRE**  
(R.S.Q., c. D-7.1)

**INCOME AND ACCUMULATED SURPLUS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                               | <u>2005</u>          | <u>2004</u>          |
|-----------------------------------------------|----------------------|----------------------|
| <b>REVENUE</b>                                |                      |                      |
| Employer contributions (Note 3)               | 24 686               | 48 852               |
| Interest                                      | 1 176                | 1 228                |
| Fees and charges                              | <u>817</u>           | <u>789</u>           |
|                                               | <u>26 679</u>        | <u>50 869</u>        |
| <b>EXPENDITURE</b>                            |                      |                      |
| Subsidies to employers                        | 20 302               | 26 726               |
| Management fees (Note 4)                      | 3 956                | 5 235                |
| Contribution collection fees                  | 734                  | 721                  |
| Promotion and advertising                     | 4                    | 11                   |
| Depreciation of fixed assets                  | <u>1</u>             | <u>6</u>             |
|                                               | <u>24 997</u>        | <u>32 699</u>        |
| <b>ANNUAL SURPLUS</b>                         | 1 682                | 18 170               |
| <b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b> | <u>87 165</u>        | <u>68 995</u>        |
| <b>ACCUMULATED SURPLUS, END OF YEAR</b>       | <u><u>88 847</u></u> | <u><u>87 165</u></u> |

The notes are an integral part of these financial statements.

## FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

BALANCE SHEET  
as at March 31, 2005  
(in thousands of dollars)

|                                                     | <u>2005</u>   | <u>2004</u>   |
|-----------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                       |               |               |
| <b>Current assets</b>                               |               |               |
| Advance from the Consolidated Revenue Fund (Note 5) | 73 223        | 57 492        |
| Employer contributions receivable                   | 17 159        | 33 348        |
| Accounts receivable (Note 6)                        | <u>733</u>    | <u>263</u>    |
|                                                     | 91 115        | 91 103        |
| <b>Fixed assets</b> (Note 7)                        | <u>1</u>      | <u>2</u>      |
|                                                     | <u>91 116</u> | <u>91 105</u> |
| <b>LIABILITIES</b>                                  |               |               |
| <b>Current liabilities</b>                          |               |               |
| Accounts payable and accruals                       | 2 269         | 3 940         |
| <b>ACCUMULATED SURPLUS</b>                          | <u>88 847</u> | <u>87 165</u> |
|                                                     | <u>91 116</u> | <u>91 105</u> |
| <b>COMMITMENTS</b> (Note 8)                         |               |               |

The notes are an integral part of these financial statements.

Maurice Boisvert  
Associate Deputy Minister - Emploi-Québec  
Ministère de l'Emploi et de la Solidarité sociale

François Turenne  
Deputy Minister  
Ministère de l'Emploi et de la Solidarité sociale

## FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE

### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(in thousands of dollars)

#### 1. CONSTITUTION AND PURPOSE

The Fonds national de formation de la main-d'oeuvre was established under the Act to foster the development of manpower training (R.S.Q., c. D-7.1). Its purpose is to promote and support measures and initiatives related to manpower training. The Minister of Employment and Social Solidarity is responsible for administering the Fonds.

Under federal and provincial income tax legislation, the Fonds is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The Fonds' financial statements were prepared in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best judgements and estimates. The cash flow statement is not shown as it would not provide any useful supplementary information regarding the Fonds' cash position during the year.

##### Employer contributions

By virtue of the provisions of its incorporating legislation, employers are required to pay a contribution to the Fonds, 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 Fonds, are recorded on the basis of the amount reported by the employers for the preceding calendar year and are subject to audit and adjustment. Where applicable, adjustments are posted to employer contribution revenue during the fiscal year in which they are known.

##### Employer subsidies

Subsidies related to the resource allocation plan of the Fonds national de formation de la main-d'oeuvre are recorded when they are authorized by the Fonds and when employers have met the eligibility criteria defined in the agreements, where applicable. The recovery of subsidy overpayments is posted to reducing the expenditures of the fiscal year in which they are recovered or recoverable.

##### Fixed assets

Fixed assets are recorded at cost and amortized based on their useful life using the straight-line method over a period of:

|                           |         |
|---------------------------|---------|
| Data processing equipment | 3 years |
|---------------------------|---------|

#### 3. EMPLOYER CONTRIBUTIONS \*

|                                  | 2005          | 2004          |
|----------------------------------|---------------|---------------|
| Amount declared for the year     | 16 812        | 33 373        |
| Amount related to previous years | 7 874         | 15 479        |
|                                  | <u>24 686</u> | <u>48 852</u> |

\* The liability threshold of eligible companies, which was \$250 000, was increased to \$1 000 000 in December 2003.

#### 4. MANAGEMENT FEES

As stipulated in the Act to foster the development of manpower training, the Commission des partenaires du marché du travail restricted the amounts that could be taken from the Fonds 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 58 FTEs for the fiscal year ended March 31, 2005 (75 in 2004). These individuals are responsible for the information, promotion and enforcement of the Act and its regulations and for the administration of the Fund.

**FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**4. MANAGEMENT FEES (cont'd)**

Management fees received free of charge from the Ministère de l'Emploi et de la Solidarité sociale are not presented in the Fonds' financial statements.

**5. ADVANCE FROM THE CONSOLIDATED REVENUE FUND**

The advance bears interest at the reduced bank prime rate of 2.5% and includes no terms and conditions of repayment.

**6. ACCOUNTS RECEIVABLE**

|                                                 | 2005       | 2004       |
|-------------------------------------------------|------------|------------|
| Interest receivable – Consolidated Revenue Fund | 330        | 260        |
| Employer subsidy overpayments                   | 321        | 2          |
| Other                                           | 82         | 1          |
|                                                 | <u>733</u> | <u>263</u> |

**7. FIXED ASSETS**

|                           | 2005      |                             | 2004     |
|---------------------------|-----------|-----------------------------|----------|
|                           | Cost      | Accumulated<br>depreciation | Net      |
| Data processing equipment | <u>24</u> | <u>23</u>                   | <u>1</u> |
|                           |           |                             | <u>2</u> |

**8. COMMITMENTS**

The Fonds committed to providing financial support for projects designed to promote and support the manpower training measures and initiatives. The balance of commitments at March 31, 2005 was \$14 126 718 (\$15 359 197 at March 31, 2004).

**9. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements, 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 either joint control or significant influence by it. The Fonds did not carry out 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.

**10. FINANCIAL INSTRUMENTS**

The fair value of the financial instruments recorded in the financial statement (short-term assets and liabilities) is equivalent to their book value given that they mature in the near future.

**11. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE****MANAGEMENT'S REPORT**

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The financial statements of the Fonds national de formation de la main-d'oeuvre were drawn up by Fonds' management, which is responsible for their preparation, presentation and significant judgements and estimates. This responsibility includes the choice of accounting policies that comply with the accounting principles that are generally accepted in Canada.

To fulfil its mandate, the management maintains a system of internal accounting controls designed to give reasonable assurance that assets are safeguarded and that the transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Fonds management recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. It approved the financial statements.

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

Maurice Boisvert  
Associate Deputy Minister - Emploi-Québec  
Ministère de l'Emploi et de la Solidarité sociale

François Turenne  
Deputy Minister  
Ministère de l'Emploi et de la Solidarité sociale

Québec, July 6, 2005

**FONDS NATIONAL DE FORMATION DE LA MAIN-D'OEUVRE****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds national de formation de la main-d'oeuvre as at March 31, 2005 and the statement of income and accumulated surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2005 and the results of its operations and cash flows 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 fiscal year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, July 6, 2005

**FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**  
(R.S.Q., c. M-30.01)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                                                                  | <u>2005</u>        | <u>2004</u>        |
|----------------------------------------------------------------------------------|--------------------|--------------------|
| <b>SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC<br/>AND OTHER AGENCIES (Note 3)</b> | \$41 181 985       | \$39 404 130       |
| <b>INTEREST AND OTHER REVENUE</b>                                                | <u>1 042 112</u>   | <u>1 167 034</u>   |
|                                                                                  | <u>42 224 097</u>  | <u>40 571 164</u>  |
| <b>GRANTS AND SCHOLARSHIPS AWARDED</b>                                           |                    |                    |
| Research grants                                                                  | 29 609 866         | 33 848 917         |
| Scholarships                                                                     | <u>8 275 082</u>   | <u>9 162 110</u>   |
|                                                                                  | <u>37 884 948</u>  | <u>43 011 027</u>  |
|                                                                                  | 4 339 149          | (2 439 863)        |
| <b>OPERATING EXPENSES (Note 4)</b>                                               | <u>4 757 191</u>   | <u>4 916 885</u>   |
| <b>DEFICIENCY OF REVENUE OVER EXPENDITURE</b>                                    | (418 042)          | (7 356 748)        |
| <b>SURPLUS, BEGINNING OF YEAR</b>                                                | <u>2 436 523</u>   | <u>9 793 271</u>   |
| <b>SURPLUS, END OF YEAR (Note 5)</b>                                             | <u>\$2 018 481</u> | <u>\$2 436 523</u> |

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, 2005

|                                                                | 2005                | 2004                |
|----------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                  |                     |                     |
| <b>Current assets</b>                                          |                     |                     |
| Cash on hand                                                   | \$1 010 650         | \$936 290           |
| Term deposit (2.35%, maturing April 1, 2005)                   | 3 500 000           | 2 500 000           |
| Accrued interest                                               | 10 884              | 8 676               |
| Subsidies and other accounts receivable (Note 6)               | 2 474 531           | 4 490 794           |
| Prepaid expenses                                               | 83 729              | 80 750              |
|                                                                | <u>7 079 794</u>    | <u>8 016 510</u>    |
| <b>Sums held on behalf of granting agencies (Note 7)</b>       | 1 839 116           | 2 465 285           |
| <b>Fixed assets (Note 8)</b>                                   | <u>1 370 250</u>    | <u>1 356 521</u>    |
|                                                                | <u>\$10 289 160</u> | <u>\$11 838 316</u> |
| <b>LIABILITIES</b>                                             |                     |                     |
| <b>Current liabilities</b>                                     |                     |                     |
| Grants and scholarships payable (Note 10)                      |                     | \$388 524           |
| Accounts payable et accruals (Note 11)                         | \$752 361           | 709 964             |
| Deferred subsidies from agencies                               | 5 510 649           | 5 598 704           |
| Deferred government subsidies                                  | 165 498             | 235 823             |
|                                                                | <u>6 428 508</u>    | <u>6 933 015</u>    |
| <b>Amounts payable on behalf of granting agencies (Note 7)</b> | <u>1 842 171</u>    | <u>2 468 778</u>    |
|                                                                | 8 270 679           | 9 401 793           |
| <b>SURPLUS (Note 5)</b>                                        | <u>2 018 481</u>    | <u>2 436 523</u>    |
|                                                                | <u>\$10 289 160</u> | <u>\$11 838 316</u> |
| <b>COMMITMENTS (Note 12)</b>                                   |                     |                     |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Sylvie Dillard  
Christine Gagnon



## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la nature et les technologies was established under the Act respecting the Ministère du Développement économique et régional et de la Recherche (R.S.Q., c. M-30.01). The purpose of the Fonds is 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. Further, the Fonds manages, for itself, for the Fonds de la recherche en santé du Québec and for the Fonds québécois de la recherche sur la société et la culture, graduate student scholarships programs and subsidy programs designed to release professors from their teaching duties. It establishes all necessary partnerships, notably with universities, colleges, the industry, government departments and the 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 an agent of the Gouvernement du Québec. As such, it is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Fonds were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown, as it would not provide any useful additional information regarding the Fonds' cash flow during the year.

##### Subsidies from the Gouvernement du Québec and other agencies

Subsidies from the Gouvernement du Québec and other agencies are accounted for as products of the fiscal year during which the related expenses were incurred. Unappropriated subsidies are posted to proceeds when they are received or receivable if the amount receivable 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 recorded in the fiscal year in which they are cancelled or reimbursed.

##### Fixed assets

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

|                                | Rate    |
|--------------------------------|---------|
| Office furniture and equipment | 20%     |
| Data processing equipment      | 33 1/3% |
| Leasehold improvements         | 20%     |

##### Intangible assets

Computer development is recorded at cost and amortized over its service life using the straight-line method at 20%. It undergoes a depreciation test when changes in the situation indicate that it may not be possible to recover its book value. Any excess book value over the fair value is posted to results for the period in which the depreciation was determined.

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 3. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

|                                                                               | 2005                | 2004                |
|-------------------------------------------------------------------------------|---------------------|---------------------|
| Ministère du Développement économique,<br>de l'Innovation et de l'Exportation | \$35 530 100        | \$35 467 900        |
| Partenaires des Actions concertées                                            | 4 737 717           | 3 146 700           |
| Partnership projects (CANTOR)                                                 | 843 842             | 689 869             |
| Other                                                                         | 70 326              | 99 661              |
|                                                                               | <u>\$41 181 985</u> | <u>\$39 404 130</u> |

## 4. OPERATING EXPENSES OF THE FONDS

|                                       | 2005               | 2004               |
|---------------------------------------|--------------------|--------------------|
| Salaries                              |                    |                    |
| Wages                                 | \$2 761 224        | \$2 770 643        |
| Training and professional development | 13 310             | 12 132             |
| Professional dues                     | 1 271              | 799                |
|                                       | <u>2 775 805</u>   | <u>2 783 574</u>   |
| Services                              |                    |                    |
| Fees                                  | 375 214            | 469 775            |
| Lease                                 |                    |                    |
| Rent                                  | 200 569            | 192 444            |
| Insurance                             | 8 245              | 5 432              |
| Maintenance and repairs               | 150 972            | 106 668            |
| Rental                                | 21 592             | 20 240             |
|                                       | <u>381 378</u>     | <u>324 784</u>     |
| Communications                        | 97 384             | 84 994             |
| Transportation and accommodations     | 151 018            | 325 963            |
| Other expenses                        |                    |                    |
| Telecommunications                    | 74 413             | 69 514             |
| Photocopies                           | 23 569             | 26 897             |
| Mailing costs                         | 30 835             | 35 006             |
| Office expenditures                   | 45 056             | 42 182             |
| Other expenses                        | 7 982              | 7 547              |
| Financial charges                     | 47                 | 62                 |
|                                       | <u>181 902</u>     | <u>181 208</u>     |
| Amortization                          |                    |                    |
| Fixed assets                          | 501 971            | 617 133            |
| Intangible assets                     | 292 519            | 129 454            |
|                                       | <u>794 490</u>     | <u>746 587</u>     |
|                                       | <u>\$4 757 191</u> | <u>\$4 916 885</u> |

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**5. SURPLUS**

The Fonds' board of directors has reserved a portion of the surplus for the awarding of scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs 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 follows:

|                                  | 2005               | 2004               |
|----------------------------------|--------------------|--------------------|
| Research scholarships and grants | \$861 455          | \$961 892          |
| Partnership project (CANTOR)     | 162 227            | 215 962            |
|                                  | <u>\$1 023 682</u> | <u>\$1 177 854</u> |

**6. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE**

|                                                                               | 2005               | 2004               |
|-------------------------------------------------------------------------------|--------------------|--------------------|
| Fonds québécois de la recherche sur la société et la culture                  | \$458 947          | \$1 529 744        |
| Ministère du Développement économique, de<br>l'Innovation et de l'Exportation | 116 666            | 27 432             |
| Fonds de la recherche en santé du Québec                                      | 1 216              | 3 713              |
| Other                                                                         | 1 897 702          | 2 929 905          |
|                                                                               | <u>\$2 474 531</u> | <u>\$4 490 794</u> |

**7. SUMS HELD ON BEHALF OF GRANTING AGENCIES**

Under agreements entered into with a few 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.

|                               | Perspectives<br>STS | Environment      | Highway<br>safety | Optical<br>development | Total              |
|-------------------------------|---------------------|------------------|-------------------|------------------------|--------------------|
| Opening balance               | \$410 280           | \$736 614        | \$44 588          | \$1 277 296            | \$2 468 778        |
| Increase                      |                     |                  |                   |                        |                    |
| Interest on bank deposits     | 7 780               | 14 455           |                   | 20 800                 | 43 035             |
|                               | <u>418 060</u>      | <u>751 069</u>   | <u>44 588</u>     | <u>1 298 096</u>       | <u>2 511 813</u>   |
| Decrease                      |                     |                  |                   |                        |                    |
| Research grants               | 92 860              | 48 092           | 20 785            | 500 125                | 661 862            |
| Transfer of interest to Fonds | 7 780               |                  |                   |                        | 7 780              |
|                               | <u>100 640</u>      | <u>48 092</u>    | <u>20 785</u>     | <u>500 125</u>         | <u>669 642</u>     |
| Closing balance               | <u>\$317 420</u>    | <u>\$702 977</u> | <u>\$23 803</u>   | <u>\$797 971</u>       | <u>\$1 842 171</u> |

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**7. SUMS HELD ON BEHALF OF GRANTING AGENCIES (cont'd)**

These amounts break down as follows:

|                                              | Total              |
|----------------------------------------------|--------------------|
| Amounts held for subsidizing agencies - cash | \$1 839 116        |
| Accrued interest                             | 3 055              |
|                                              | <u>\$1 842 171</u> |

**8. FIXED ASSETS**

|                                | 2005               |                             |                    | 2004               |
|--------------------------------|--------------------|-----------------------------|--------------------|--------------------|
|                                | Cost               | Accumulated<br>depreciation | Net                | Net                |
| Fixed assets                   |                    |                             |                    |                    |
| Office furniture and equipment | \$359 897          | \$264 379                   | \$95 518           | \$91 930           |
| Data processing equipment      | 2 982 383          | 2 653 948                   | 328 435            | 555 881            |
| Leasehold improvements         | 457 954            | 256 587                     | 201 367            | 264 274            |
|                                | <u>3 800 234</u>   | <u>3 174 914</u>            | <u>625 320</u>     | <u>912 085</u>     |
| Intangible assets              |                    |                             |                    |                    |
| Computer development           | 1 240 281          | 495 351                     | 744 930            | 444 436            |
|                                | <u>\$5 040 515</u> | <u>\$3 670 265</u>          | <u>\$1 370 250</u> | <u>\$1 356 521</u> |

Disbursements related to acquisitions for the fiscal year are \$808 219 (2004: \$955 899).

**9. CREDIT LINE**

The Fonds has a credit line of up to \$10 000 000 with the Financing Fund until March 31, 2007. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2005, there was no balance owing on the credit line.

**10. GRANTS AND SCHOLARSHIPS PAYABLE**

|                                                              | 2005 | 2004             |
|--------------------------------------------------------------|------|------------------|
| Fonds québécois de la recherche sur la société et la culture |      | \$55 899         |
| Other                                                        |      | 332 625          |
|                                                              |      | <u>\$388 524</u> |

**11. ACCOUNTS PAYABLE AND ACCRUALS**

|                                                              | 2005             | 2004             |
|--------------------------------------------------------------|------------------|------------------|
| Fonds québécois de la recherche sur la société et la culture | \$330 748        | \$128 878        |
| Fonds de la recherche en santé du Québec                     | 62 225           | 122 023          |
| Suppliers                                                    | 359 388          | 459 063          |
|                                                              | <u>\$752 361</u> | <u>\$709 964</u> |

**FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**12. COMMITMENTS**

At March 31, 2005, the Fonds' commitments totalled \$43 432 211 (2004: \$52 288 524) for grants and \$9 389 770 (2004: \$8 503 597) for scholarships. Awarding of these grants and scholarships, however, depends on the funds allocated by Parliament.

**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 either joint control or significant influence by it. The Fonds 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. FINANCIAL INSTRUMENTS**

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

The fair value of amounts payable for subsidizing agencies is equal to its book value, given that these amounts comprise short-term financial assets.

**15. 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 liability of the Fonds towards this plan is restricted to its contributions as an employer. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement amount to \$100 454 (2004: \$89 684) and represent current service pension costs.

**16. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES****MANAGEMENT'S REPORT**

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The financial statements of the Fonds québécois de la recherche sur la nature et les technologies were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. The other financial information contained in the annual activity report concurs with the information given 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 Fond 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 finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Sylvie Dillard  
President and Chief Executive Officer

Lucie Girard  
Director of Administration and Evaluation

Québec, May 27, 2005

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**AUDITOR'S REPORT**

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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, 2005 and the statement of revenue and expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2005 and the application of subsidies and cash flows for the year then ended, in accordance with 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 General of Québec

Québec, May 27, 2005

**FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE**  
(R.S.Q., c. M-30.01)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                                                                  | <u>2005</u>               | <u>2004</u>               |
|----------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC<br/>AND OTHER AGENCIES (Note 3)</b> | \$46 623 022              | \$46 464 378              |
| <b>INTEREST INCOME</b>                                                           | <u>369 309</u>            | <u>486 832</u>            |
|                                                                                  | <u>46 992 331</u>         | <u>46 951 210</u>         |
| <br><b>GRANTS AND SCHOLARSHIPS AWARDED</b>                                       |                           |                           |
| Research grants                                                                  | 27 517 144                | 36 019 191                |
| Scholarships                                                                     | <u>13 612 342</u>         | <u>15 570 511</u>         |
|                                                                                  | <u>41 129 486</u>         | <u>51 589 702</u>         |
|                                                                                  | 5 862 845                 | (4 638 492)               |
| <b>OPERATING EXPENSES (Note 4)</b>                                               | <u>4 062 707</u>          | <u>3 995 512</u>          |
| <b>EXCESS (INSUFFICIENCY) REVENUE OVER<br/>EXPENDITURE</b>                       | 1 800 138                 | (8 634 004)               |
| <b>SURPLUS, BEGINNING OF YEAR</b>                                                | <u>1 423 206</u>          | <u>10 057 210</u>         |
| <b>SURPLUS, END OF YEAR (Note 5)</b>                                             | <u><u>\$3 223 344</u></u> | <u><u>\$1 423 206</u></u> |

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, 2005

|                                                  | 2005                | 2004                |
|--------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                    |                     |                     |
| <b>Current assets</b>                            |                     |                     |
| Cash on hand                                     | \$787 013           | \$1 506 547         |
| Term deposit (2.35%, maturing April 1, 2005)     | 8 000 000           | 6 000 000           |
| Accrued interest                                 | 13 140              | 7 666               |
| Subsidies and other accounts receivable (Note 6) | 1 263 840           | 3 110 347           |
| Prepaid expenses                                 | 10 142              | 8 999               |
|                                                  | <u>10 074 135</u>   | <u>10 633 559</u>   |
| <b>Fixed assets</b> (Note 7)                     | <u>688 055</u>      | <u>834 058</u>      |
|                                                  | <u>\$10 762 190</u> | <u>\$11 467 617</u> |
| <b>LIABILITIES</b>                               |                     |                     |
| <b>Current liabilities</b>                       |                     |                     |
| Grants and scholarships payable (Note 9)         | \$12 475            | \$449 200           |
| Accounts payable and accruals (Note 10)          | 725 715             | 1 731 969           |
| Deferred subsidies from agencies                 | 6 457 902           | 7 445 398           |
| Instalment of long-term debt (Note 11)           | 80 022              | 75 090              |
|                                                  | <u>7 276 114</u>    | <u>9 701 657</u>    |
| <b>Long-term debt</b> (Note 11)                  | <u>262 732</u>      | <u>342 754</u>      |
|                                                  | <u>7 538 846</u>    | <u>10 044 411</u>   |
| <b>SURPLUS</b> (Note 5)                          | <u>3 223 344</u>    | <u>1 423 206</u>    |
|                                                  | <u>\$10 762 190</u> | <u>\$11 467 617</u> |
| <b>COMMITMENTS</b> (Note 12)                     |                     |                     |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Louise Dandurand  
Richard Cloutier



## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la société et la culture was established under the Act respecting the Ministère du Développement économique et régional et de la Recherche (R.S.Q., c. M-30.01). The Fonds' purpose is 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. It establishes all partnerships required, notably with the universities, colleges, cultural institutions, government departments and public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la société et la culture is an agent of the Gouvernement du Québec and, as such, is not subject to federal or provincial income tax.

#### 2. ACCOUNTING POLICIES

The Fonds' financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of changes in financial position is not shown, as it would not provide any useful supplementary information regarding the Fonds' cash flow during the year.

##### Subsidies from the Gouvernement du Québec and other organizations

Subsidies from the Gouvernement du Québec and other organizations are recorded as proceeds for the fiscal year in which the related expenses are incurred. Unappropriated subsidies are posted to proceeds when they are received or receivable if the amount receivable 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 recorded in the fiscal year in which they are cancelled or reimbursed.

##### Fixed assets

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

|                                | Rate    |
|--------------------------------|---------|
| Office furniture and equipment | 20%     |
| Data processing equipment      | 33 1/3% |
| Leasehold improvements         | 20%     |

##### Intangible assets

Computer development is recorded at cost and amortized over its service life using the straight-line method at 20%. It undergoes a depreciation test when changes in the situation indicate that it may not be possible to recover its book value. Any excess book value over the fair value is posted to results for the period in which the depreciation was determined.

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 3. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

|                                                                               | 2005                | 2004                |
|-------------------------------------------------------------------------------|---------------------|---------------------|
| Ministère du Développement économique, de<br>l'Innovation et de l'Exportation | \$43 137 400        | \$43 312 850        |
| Partenaires des Actions concertées                                            | 3 461 617           | 3 141 528           |
| Other                                                                         | 24 005              | 10 000              |
|                                                                               | <u>\$46 623 022</u> | <u>\$46 464 378</u> |

## 4. OPERATING EXPENSES OF THE FONDS

|                                       | 2005               | 2004               |
|---------------------------------------|--------------------|--------------------|
| Salaries                              |                    |                    |
| Wages                                 | \$2 048 850        | \$2 056 137        |
| Training and professional development | 12 565             | 11 897             |
| Professional dues                     | 3 908              | 799                |
|                                       | <u>2 065 323</u>   | <u>2 068 833</u>   |
| Services                              |                    |                    |
| Fees                                  | 899 529            | 872 916            |
| Lease                                 |                    |                    |
| Rent                                  | 263 136            | 247 585            |
| Insurance                             | 13 658             | 4 674              |
| Maintenance and repairs               | 25 630             | 22 829             |
| Rental                                | 23 604             | 19 350             |
|                                       | <u>326 028</u>     | <u>294 438</u>     |
| Communications                        | 75 442             | 59 111             |
| Transportation and accommodations     | 219 725            | 225 901            |
| Other expenses                        |                    |                    |
| Telecommunications                    | 62 264             | 67 593             |
| Photocopies                           | 18 278             | 18 327             |
| Mailing costs                         | 17 616             | 15 272             |
| Office expenditures                   | 25 534             | 24 411             |
| Other expenses                        | 7 193              | 7 993              |
| Financial charges                     | 23 978             | 28 620             |
|                                       | <u>154 863</u>     | <u>162 216</u>     |
| Amortization                          |                    |                    |
| Fixed assets                          | 231 652            | 241 393            |
| Intangible assets                     | 90 145             | 70 704             |
|                                       | <u>321 797</u>     | <u>312 097</u>     |
|                                       | <u>\$4 062 707</u> | <u>\$3 995 512</u> |

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**5. SURPLUS**

The Fonds' board of directors has reserved a portion of the surplus for the awarding of scholarships and grants, including a sum to meet the Fonds' commitments under joint action programs. 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 follows:

|                                     | 2005         | 2004        |
|-------------------------------------|--------------|-------------|
| Research scholarships and bursaries | 3 061 852 \$ | \$1 008 851 |

**6. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE**

|                                                                             | 2005               | 2004               |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| Fonds québécois de la recherche sur la nature et les technologies           | \$330 748          | \$184 777          |
| Ministère du Développement régional, de<br>l'Innovation et de l'Exportation | 55 000             | 76 783             |
| Fonds de la recherche en santé du Québec                                    | 21 376             | 31 672             |
| Other                                                                       | 856 716            | 2 817 115          |
|                                                                             | <u>\$1 263 840</u> | <u>\$3 110 347</u> |

**7. FIXED ASSETS**

|                                | 2005               |                             |                  | 2004             |
|--------------------------------|--------------------|-----------------------------|------------------|------------------|
|                                | Cost               | Accumulated<br>depreciation | Net              | Net              |
| Fixed assets                   |                    |                             |                  |                  |
| Office furniture and equipment | \$237 969          | \$131 228                   | \$106 741        | \$115 007        |
| Data processing equipment      | 309 306            | 253 038                     | 56 268           | 103 868          |
| Leasehold improvements         | 550 322            | 280 667                     | 269 655          | 366 855          |
|                                | <u>1 097 597</u>   | <u>664 933</u>              | <u>432 664</u>   | <u>585 730</u>   |
| Intangible assets              |                    |                             |                  |                  |
| Data processing development    | 450 725            | 195 334                     | 255 391          | 248 328          |
|                                | <u>\$1 548 322</u> | <u>\$860 267</u>            | <u>\$688 055</u> | <u>\$834 058</u> |

Disbursements related to the fiscal year's acquisitions are \$175 794 (2004: \$305 122).

**8. CREDIT LINE**

The Fonds has a credit line of up to \$10 000 000 with the Financing Fund until March 31, 2007. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2005, there was no balance owing on the credit line.

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**9. GRANTS AND SCHOLARSHIPS PAYABLE**

|                                                                   | 2005            | 2004             |
|-------------------------------------------------------------------|-----------------|------------------|
| Fonds québécois de la recherche sur la nature et les technologies | \$12 475        | \$100 000        |
| Fonds de la recherche en santé du Québec                          |                 | 100 000          |
| Other                                                             |                 | 249 200          |
|                                                                   | <u>\$12 475</u> | <u>\$449 200</u> |

**10. ACCOUNTS PAYABLE AND ACCRUALS**

|                                                                   | 2005             | 2004               |
|-------------------------------------------------------------------|------------------|--------------------|
| Fonds québécois de la recherche sur la nature et les technologies | \$446 472        | \$1 429 744        |
| Fonds de la recherche en santé du Québec                          | 6 021            |                    |
| Suppliers                                                         | 273 222          | 302 225            |
|                                                                   | <u>\$725 715</u> | <u>\$1 731 969</u> |

**11. LONG-TERM DEBT**

|                                                                                                                                                                                     | 2005             | 2004             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Note payable to the Société immobilière du Québec,<br>fixed rate of 6.68%, repayable in semi-annual<br>instalments of \$3 649 in capital and interest,<br>maturing in February 2007 | \$78 582         | \$115 767        |
| Note payable to the Société immobilière du Québec,<br>fixed rate of 6.08%, repayable in semi-annual<br>instalments of \$4 602 in capital and interest,<br>maturing in November 2010 | 264 172          | 302 077          |
|                                                                                                                                                                                     | <u>342 754</u>   | <u>417 844</u>   |
| Instalment due within one year                                                                                                                                                      | 80 022           | 75 090           |
|                                                                                                                                                                                     | <u>\$262 732</u> | <u>\$342 754</u> |

Payments of principal for the next five fiscal years are as follows:

|      |          |
|------|----------|
| 2006 | \$80 022 |
| 2007 | 81 628   |
| 2008 | 45 469   |
| 2009 | 48 311   |
| 2010 | 51 332   |

Interest paid on the debt totalled \$23 931 (2004: \$28 558).

## FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 12. COMMITMENTS

As at March 31, 2005, Fonds commitments amount to \$45 906 487 (2004: \$36 153 081) for grants and \$12 320 019 (2004: \$19 110 705) for scholarships. Whether these grants and scholarships are awarded depends on the appropriations allotted by Parliament.

### 13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Fonds is a related party to all government departments, special funds, and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fonds 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. FINANCIAL INSTRUMENTS

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

The fair value of the obligations resulting from long-term debt elements is determined using the actualized value of future cash flows under current financing agreements based on market interest rates offered to the Fonds for borrowings with similar conditions and terms.

The following table indicates the book value and fair value of the Fonds' long-term financial instruments:

|                                               | 2005       |            | 2004       |            |
|-----------------------------------------------|------------|------------|------------|------------|
|                                               | Book value | Fair value | Book value | Fair value |
| Long-term debt (including short-term portion) | \$342 754  | \$359 950  | \$417 844  | \$443 842  |

### 15. FUTURE FRINGE BENEFITS

#### Pension plan

The supplemental pension plan for staff members of the Fonds is a defined-contribution plan. The liability of the Fonds towards this plan is restricted to its contributions as an employer. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement amount to \$74 098 (2004: \$68 311) and represent current service pension costs.

### 16. COMPARATIVE FIGURES

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE****MANAGEMENT'S REPORT**

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The financial statements of the Fonds québécois de la recherche sur la société et la culture were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 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 Fond 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 finance committee, whose members are not management. The finance committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Louise Dandurand  
President and Chief Executive Officer

Lucie Girard  
Vice-president of Administration and Evaluation

Québec, May 27, 2005

**FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la société et la culture as at March 31, 2005 and the statement of revenue, expenditure and surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 27, 2005

**HÉMA-QUÉBEC**  
(R.S.Q., c. H-1.1)

OPERATING RESULTS AND NET ASSETS  
for the year ended March 31

|                                                | <u>2005</u>         | <u>2004</u>         |
|------------------------------------------------|---------------------|---------------------|
| <b>REVENUES</b>                                |                     |                     |
| Grant from the Government of Québec            | \$258 282 306       | \$259 815 785       |
| Blood products sold to Canadian Blood Services | 6 036               | 233 592             |
| Interest on term deposits                      | 742 235             | 827 859             |
| Other income                                   | <u>1 737 846</u>    | <u>1 191 989</u>    |
|                                                | 260 768 423         | 262 069 225         |
| <b>EXPENSES (Note 3)</b>                       | <u>258 330 074</u>  | <u>255 316 161</u>  |
| <b>EXCESS OF REVENUES OVER EXPENSES</b>        | 2 438 349           | 6 753 064           |
| <b>NET ASSETS AT BEGINNING</b>                 | <u>14 852 896</u>   | <u>8 099 832</u>    |
| <b>NET ASSETS AT END</b>                       | <u>\$17 291 245</u> | <u>\$14 852 896</u> |

The complementary notes are an integral part of the financial statements.



**HÉMA-QUÉBEC**BALANCE SHEET  
as at March 31

|                                                           | <u>2005</u>         | <u>2004</u>         |
|-----------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                             |                     |                     |
| <b>Short-term</b>                                         |                     |                     |
| Cash                                                      | \$9 708 700         | \$522 658           |
| Short-term investments (Note 4)                           | 7 343 019           | 10 856 988          |
| Accounts receivable (Note 5)                              | 9 019 073           | 9 193 771           |
| Grant forthcoming from the Government of Québec           | 137 127             | 206 252             |
| Inventory (Note 6)                                        | 18 631 882          | 19 801 427          |
| Prepaid expenses (Note 7)                                 | 4 654 511           | 3 398 374           |
|                                                           | <u>49 494 312</u>   | <u>43 979 470</u>   |
| <b>Fixed assets</b> (Note 8)                              | 38 352 973          | 37 757 294          |
| <b>Deferred charges</b> (Note 9)                          | 1 755 111           |                     |
| <b>Accrued benefit asset</b> (Note 13)                    | 554 500             |                     |
|                                                           | <u>\$90 156 896</u> | <u>\$81 736 764</u> |
| <b>LIABILITIES</b>                                        |                     |                     |
| <b>Short-term</b>                                         |                     |                     |
| Accounts payable and accrued liabilities (Note 11)        | \$30 419 800        | \$24 349 773        |
| Portion of long-term debt payable within a year (Note 12) | 5 700 826           | 5 984 167           |
|                                                           | <u>36 120 626</u>   | <u>30 333 940</u>   |
| <b>Long-term debt</b> (Note 12)                           | 33 933 337          | 33 334 053          |
| <b>Accrued benefits liability</b> (Note 13)               | 2 811 688           | 3 215 875           |
| <b>NET ASSETS</b>                                         | <u>17 291 245</u>   | <u>14 852 896</u>   |
|                                                           | <u>\$90 156 896</u> | <u>\$81 736 764</u> |

**COMMITMENTS** (Note 15)

The complementary notes are an integral part of the financial statements.

For the Board of Directors,  
André Lebrun, Director  
Cheryl Campbell Steer, Director

**HÉMA-QUÉBEC****CASH FLOWS**  
for the year ended March 31

|                                                                                                                          | <u>2005</u>                | <u>2004</u>                |
|--------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>OPERATING ACTIVITIES</b>                                                                                              |                            |                            |
| Items not affecting cash flows and cash equivalent                                                                       |                            |                            |
| Excess of revenues over expenses                                                                                         | \$2 438 349                | \$6 753 064                |
| Fixed assets depreciation                                                                                                | 4 392 556                  | 4 552 965                  |
| Depreciation of deferred charges                                                                                         | 120 486                    |                            |
| Loss on write-offs and disposal of assets                                                                                | 138 046                    | 2 544 776                  |
| Unrealized loss on exchange                                                                                              | 1 537 465                  | 623 809                    |
| Increase in accrued benefit asset                                                                                        | (554 500)                  |                            |
| Reduction in accrued benefit liability                                                                                   | (404 187)                  | (461 322)                  |
|                                                                                                                          | <u>7 668 215</u>           | <u>14 013 292</u>          |
| Changes in non-cash working capital                                                                                      |                            |                            |
| Decrease (increase) in accounts receivable                                                                               | 174 698                    | (6 576 996)                |
| Decrease in grant forthcoming from the Government of Québec                                                              | 69 125                     | 54 743                     |
| Decrease in inventory                                                                                                    | 1 169 545                  | 5 060 163                  |
| Decrease (increase) in prepaid expenses                                                                                  | (1 256 137)                | 554 173                    |
| Increase in deferred charges                                                                                             | (1 875 597)                |                            |
| Increase in payables and accrued liabilities                                                                             | 6 070 027                  | 9 630 978                  |
|                                                                                                                          | <u>12 019 876</u>          | <u>22 736 353</u>          |
| <b>INVESTING ACTIVITIES</b>                                                                                              |                            |                            |
| Decrease in the long-term investment                                                                                     |                            | 1 795 000                  |
| Acquisition of fixed assets                                                                                              | (5 126 281)                | (5 626 734)                |
| Proceeds from disposal of fixed assets                                                                                   |                            | 16 306                     |
|                                                                                                                          | <u>(5 126 281)</u>         | <u>(3 815 428)</u>         |
| <b>FINANCING ACTIVITIES</b>                                                                                              |                            |                            |
| Long-term debt                                                                                                           | 6 300 000                  | 3 775 000                  |
| Settlement of long-term debt                                                                                             | (5 984 057)                | (5 694 144)                |
|                                                                                                                          | <u>315 943</u>             | <u>(1 919 144)</u>         |
| <b>Unrealized loss on exchange on cash flow and non-cash elements of working capital denominated in foreign currency</b> | <u>(1 537 465)</u>         | <u>(623 809)</u>           |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                                             | 5 672 073                  | 16 377 972                 |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>                                                                            | <u>11 379 646</u>          | <u>(4 998 326)</u>         |
| <b>CASH AND CASH EQUIVALENTS AT END</b>                                                                                  | <u><u>\$17 051 719</u></u> | <u><u>\$11 379 646</u></u> |

The complementary notes are an integral part of the financial statements.

**HÉMA-QUÉBEC**CASH FLOWS (cont'd)  
for the year ended March 31

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Cash and cash equivalents are as follows:

|                        | <u>2005</u>            | <u>2004</u>            |
|------------------------|------------------------|------------------------|
| Cash                   | \$9 708 700            | \$522 658              |
| Short-term investments | <u>7 343 019</u>       | <u>10 856 988</u>      |
|                        | <u>\$17 051 719</u>    | <u>\$11 379 646</u>    |
| <br>Interest paid      | <br><u>\$2 031 858</u> | <br><u>\$2 200 199</u> |

The complementary notes are an integral part of the financial statements.

**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS  
for the year ended March 31, 2005**1. INCORPORATION AND FUNCTIONS**

Héma-Québec, constituted on March 26, 1998, by letters patent issued under Part III of the Companies Act (R.S.Q., Chapter C-38), has continued its operations in accordance with the provisions of the Act respecting Héma-Québec and the haemovigilance committee (S.Q., 1998, Chapter C-41). Héma-Québec is a non-profit legal entity whose mission is to efficiently provide adequate quantities of safe, optimal blood components, substitutes, human tissues and cord blood to meet the needs of all Quebecers, and to provide and develop expertise, services, and specialized and innovative products in the fields of transfusion medicine and human tissue transplantation.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Héma-Québec have been prepared by Management in conformity with Canadian generally accepted accounting principles. These statements include some amounts that are based on best estimates and judgments.

**Inventory**

The inventory of fractionation products and of collection and laboratory equipment is evaluated at the lesser of cost or replacement value, the cost being determined according to the average cost method.

**Fixed assets**

Fixed assets are recorded at cost. Depreciation is calculated in terms of the economic life of these fixed assets, according to the straight-line depreciation method and at the following rates:

**Tangible assets**

|                                |                 |
|--------------------------------|-----------------|
| Building                       | 4%              |
| Betterment                     | 5%              |
| Leasehold improvements         | length of lease |
| Automotive equipment           | 20%             |
| Machinery and equipment        | 10% and 20%     |
| Office furniture and equipment | 20%             |
| Computer equipment             | 33 1/3%         |

**Intangible assets**

|                   |         |
|-------------------|---------|
| Computer software | 33 1/3% |
| Software packages | 20%     |

**Foreign currencies translation**

Foreign currencies transactions are accounted at the average rate of the transaction date. Monetary items are translated at the rate of exchange in effect at the balance sheet date whereas non-monetary items are translated at the exchange rate in effect on the date of the transaction. Exchange gains or losses related to monetary items are included in the results for the current period.

**Employee benefit plans**

Héma-Québec offers its employees defined benefit and defined contribution pension plans. Both Héma-Québec and the participants contribute to these plans. It also offers its employees certain benefits that apply after termination of employment but before retirement and offers to certain of its retirees health insurance and life insurance benefits.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method, pro-rated on service and based on management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and anticipated health-care costs.

**HÉMA-QUÉBEC****COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
for the year ended March 31, 2005

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Employee benefit plans (cont'd)**

The obligation in terms of benefits is evaluated using the market interest rate as at the date of evaluation. Pension plan assets are evaluated at fair value. This same method is used to calculate the expected performance of plan assets.

Actuarial losses and gains result, among other things, from the gap between the real, long-term yield of plan assets and the expected yield of those assets, as well as changes made to the actuarial assumptions used to determine the obligation in terms of accrued benefits.

The net actuarial gain or loss is amortized if, at the beginning of the current year, the unamortized balance of the gain or loss exceeds 10% of the accrued benefit obligation or the value of the assets, according to whichever of the two amounts is greater.

This excess is amortized according to the straight-line method over the average remaining service period of active employees. The average remaining service period is 12 years for the unionized employee pension plan, 14 years for the non-unionized employee pension plan, 10 years for the supplemental pension plan and 17 years for the other benefit plans.

The transitional obligation and the past service costs are normally amortized over the average remaining service period of active employees.

**Cash and cash equivalents**

Héma-Québec's policy is to present bank balances – including bank overdrafts whose balances often fluctuate between the overdraft, available funds and the short-term investments whose maturity dates do not exceed three months from their acquisition dates – in cash and cash equivalents.

**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**3. EXPENSES BY RESPONSIBILITY CENTRE (LABILE PRODUCTS, FRACTIONATED PRODUCTS AND OTHER SERVICES)**

|                                                           | 2005                                      |              |              |              |                     |                    |                          |
|-----------------------------------------------------------|-------------------------------------------|--------------|--------------|--------------|---------------------|--------------------|--------------------------|
|                                                           | Recruiting,<br>marketing and<br>promotion | Procurement  | Production   | Distribution | Medical<br>services | Medical<br>affairs | Quality and<br>standards |
| Wages                                                     | \$688 368                                 | \$21 270 562 | \$9 329 284  | \$3 678 961  | \$1 510 185         | \$1 241 176        | \$900 662                |
| Benefits                                                  | 174 033                                   | 5 408 709    | 2 344 422    | 944 014      | 395 781             | 307 001            | 212 854                  |
| Travel and<br>training                                    | 73 651                                    | 695 975      | 129 461      | 51 360       | 44 082              | 38 986             | 65 601                   |
| Human resources                                           | 58 677                                    | 102 376      | 39 199       | 3 198        | 3 303               | 21 078             | 15 206                   |
| Medical supplies                                          | 8 470                                     | 1 402 959    | 11 561 516   | 106 937      | 833 397             | 4 579              | 1 244                    |
| Fractionated<br>products                                  |                                           |              |              |              |                     |                    |                          |
| Blood drives                                              | 532                                       | 15 316 773   | 178 661      | 1 151 823    | 18 716              | 1 372              | 205                      |
| Transportation<br>and delivery                            | 1 111                                     | 173 757      | 1 056 064    | 1 683 799    | 945                 | 265                |                          |
| Bought-in<br>services                                     | 192 924                                   | 67 354       | 309 663      | 43 290       | 17 901              | 107 798            | 33 374                   |
| Building and<br>premises                                  | 1 094                                     | 298 159      | 489 331      | 134 769      | 40 307              | 43 747             | 19 225                   |
| Advertising and<br>public relations                       | 3 261 233                                 | 609 883      | 4 095        | 1 627        |                     | 254                |                          |
| Information<br>technology                                 | 73 955                                    | 89 569       | 18 213       | 41 364       | 6 492               | 5 583              | 6 013                    |
| Office expenses                                           | 192 979                                   | 496 468      | 85 645       | 46 000       | 39 134              | 31 284             | 13 753                   |
| Insurance                                                 |                                           |              |              |              |                     |                    |                          |
| Loss (gain) on<br>write-offs and<br>disposal of<br>assets | (387)                                     | 75           | 32 267       | 7 336        | 13 667              |                    |                          |
| Loss (gain) on<br>exchange                                |                                           |              |              |              |                     |                    |                          |
| Fixed asset<br>depreciation                               | 116 499                                   | 177 936      | 473 328      | 72 379       | 117 112             | 9 446              | 20 770                   |
| Interest on<br>advances and<br>bank charges               |                                           |              | 46           |              |                     |                    |                          |
| Interest on<br>long-term debt                             |                                           |              |              |              |                     |                    |                          |
| Subtotal                                                  | 4 843 139                                 | 46 110 555   | 26 051 195   | 7 966 857    | 3 041 022           | 1 812 569          | 1 288 907                |
| Plasma for<br>fractionation *                             |                                           |              |              |              |                     |                    |                          |
| Total                                                     | \$4 843 139                               | \$46 110 555 | \$26 051 195 | \$7 966 857  | \$3 041 022         | \$1 812 569        | \$1 288 907              |

\* Héma-Québec has three major areas of activity: labile products, fractionated products and other products and services. Some expenses related to collecting plasma for fractionation are incurred for labile products and reallocated to fractionated products on the basis of costs incurred. The cost allocation is made according to units shipped.

| 2005                                |                           |                     |                                   |                      |                               |                    |                      | 2004                 |
|-------------------------------------|---------------------------|---------------------|-----------------------------------|----------------------|-------------------------------|--------------------|----------------------|----------------------|
| Research<br>and<br>develop-<br>ment | Information<br>technology | Admi-<br>nistration | Operation<br>of physical<br>plant | Labile<br>subtotal   | Fractiona-<br>ted<br>products | Other<br>services  | Total                | Total                |
| \$2 257 285                         | \$3 318 844               | \$4 942 015         | \$940 943                         | \$50 078 285         | \$865 603                     | \$1 505 976        | \$52 449 864         | \$52 865 287         |
| 573 230                             | 855 336                   | 307 635             | 241 417                           | 11 764 432           | 221 261                       | 388 419            | 12 374 112           | 11 930 702           |
| 98 156                              | 259 566                   | 319 289             | 68 461                            | 1 844 588            | 16 934                        | 60 558             | 1 922 080            | 1 508 836            |
| 7 473                               | 68 540                    | 169 442             | 48 989                            | 537 481              | 1 861                         | 11 326             | 550 668              | 481 170              |
| 510 701                             | 30                        | 12 505              | 12 654                            | 14 454 992           | 21 101                        | 157 006            | 14 633 099           | 14 960 542           |
|                                     |                           |                     |                                   |                      | 124 134 645                   |                    | 124 134 645          | 121 309 648          |
| 10 307                              | 402                       | 5 949               | 12 468                            | 16 697 208           | 467                           | 32 074             | 16 729 749           | 16 661 989           |
| 1 528                               | 29 378                    | 52                  | 439                               | 2 947 338            | 68 173                        | 30 130             | 3 045 641            | 2 860 007            |
| 112 160                             | 623 115                   | 975 107             | 299 947                           | 2 782 633            | 439 361                       | 788 289            | 4 010 283            | 3 550 899            |
| 82 107                              | 19 786                    | 337 723             | 5 112 617                         | 6 578 865            | 3 999                         | 11 223             | 6 594 087            | 4 424 225            |
| 2 410                               |                           | 145 470             | 971                               | 4 025 943            | 548                           | 83 950             | 4 110 441            | 3 924 652            |
| 4 575                               | 1 322 324                 | 26 299              | 54 972                            | 1 649 359            | 4 318                         | 10 674             | 1 664 351            | 1 749 353            |
| 72 688                              | 31 644                    | 151 905             | 34 964                            | 1 196 464            | 74 433                        | 60 443             | 1 331 340            | 1 242 364            |
|                                     |                           | 7 098 024           |                                   | 7 098 024            |                               | 200 000            | 7 298 024            | 8 642 035            |
| 32 902                              | 616                       |                     | 51 570                            | 138 046              |                               |                    | 138 046              | 2 544 776            |
|                                     |                           |                     | 156 304                           | 156 304              | 747 455                       | (160)              | 903 599              | (137 305)            |
| 148 306                             | 1 243 651                 | 29 392              | 1 752 916                         | 4 161 735            | 164 694                       | 66 127             | 4 392 556            | 4 552 965            |
|                                     | 1 248                     | 4 952               | 9 065                             | 15 311               |                               |                    | 15 311               | 12 730               |
|                                     |                           |                     | 1 246 550                         | 1 246 550            | 785 628                       |                    | 2 032 178            | 2 231 286            |
| 3 913 828                           | 7 774 480                 | 14 525 759          | 10 045 247                        | 127 373 558          | 127 550 481                   | 3 406 035          | 258 330 074          | 255 316 161          |
|                                     |                           |                     |                                   | (9 567 395)          | 9 567 395                     |                    |                      |                      |
| <u>\$3 913 828</u>                  | <u>\$7 774 480</u>        | <u>\$14 525 759</u> | <u>\$10 045 247</u>               | <u>\$117 806 163</u> | <u>\$137 117 876</u>          | <u>\$3 406 035</u> | <u>\$258 330 074</u> | <u>\$255 316 161</u> |

**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**4. SHORT-TERM INVESTMENTS**

Héma-Québec has a term deposit of \$7 257 600 bearing interest at a rate of 2.74% (\$9 000 000 in 2004). Héma-Québec also holds an investment of \$85 419 (\$1 856 988 in 2004) in a trust account, entered at cost, bearing interest at the rate of 1.25%.

**5. ACCOUNTS RECEIVABLE**

|                           | 2005               | 2004               |
|---------------------------|--------------------|--------------------|
| Customers                 | \$85 179           | \$194 308          |
| Sales taxes               | 2 090 940          | 1 569 782          |
| Security deposit          | 6 410 880          | 6 949 890          |
| Other accounts receivable | 432 074            | 479 791            |
|                           | <u>\$9 019 073</u> | <u>\$9 193 771</u> |

**6. INVENTORY**

|                                       | 2005                | 2004                |
|---------------------------------------|---------------------|---------------------|
| Fractionated products and substitutes | \$15 904 269        | \$16 464 517        |
| Collection equipment                  | 1 861 659           | 2 411 404           |
| Laboratory equipment                  | 865 954             | 925 506             |
|                                       | <u>\$18 631 882</u> | <u>\$19 801 427</u> |

**7. PREPAID EXPENSES**

|            | 2005               | 2004               |
|------------|--------------------|--------------------|
| Insurances | \$3 204 614        | \$3 156 413        |
| Other      | 1 449 897          | 241 961            |
|            | <u>\$4 654 511</u> | <u>\$3 398 374</u> |

**8. FIXED ASSETS**

|                                  | 2005                |                          | 2004                |
|----------------------------------|---------------------|--------------------------|---------------------|
|                                  | Cost                | Accumulated depreciation | Net value           |
| Tangible assets                  |                     |                          |                     |
| Land                             | \$2 139 500         |                          | \$2 139 500         |
| Building                         | 19 698 575          | \$2 731 023              | 16 967 552          |
| Betterment *                     | 7 404 851           | 1 296 250                | 6 108 601           |
| Leasehold improvements *         | 1 283 893           | 298 121                  | 985 772             |
| Automotive equipment             | 36 469              | 14 513                   | 21 956              |
| Machinery and equipment *        | 10 965 805          | 4 014 675                | 6 951 130           |
| Office furniture and equipment * | 3 223 206           | 1 814 701                | 1 408 505           |
| Computer equipment *             | 7 152 003           | 4 687 210                | 2 464 793           |
|                                  | <u>51 904 302</u>   | <u>14 856 493</u>        | <u>37 047 809</u>   |
| Intangible assets                |                     |                          |                     |
| Software and software packages * | 4 869 807           | 3 564 643                | 1 305 164           |
|                                  | <u>\$56 774 109</u> | <u>\$18 421 136</u>      | <u>\$38 352 973</u> |
|                                  |                     |                          | <u>\$37 757 294</u> |



**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**8. FIXED ASSETS (cont'd)**

- \* The accumulated cost of work in progress, as at March 31, 2005, totals \$525 348, excluding taxes, of which \$21 944 is included in the physical improvements category, \$4 067 in the machinery and equipment category, and \$499 337 in the software and software packages category. The amortization of these fixed assets will begin when the projects have been completed.

**9. DEFERRED CHARGES**

Under an emphyteutic lease, Héma-Québec paid the amount of \$1 875 597 to obtain the right to occupy premises at Université Laval for a period of thirty years. The amortization for the period is \$120 486 and was entered in the statements under the category of "Building and premises."

**10. BANK OVERDRAFT**

As at March 31, 2005, Héma-Québec had a revolving line of credit of \$15 000 000 bearing interest at the prime rate less 0.50%.

**11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                              | 2005                | 2004                |
|------------------------------|---------------------|---------------------|
| Suppliers                    | \$24 000 595        | \$17 682 392        |
| Salaries and fringe benefits | 6 419 205           | 6 667 381           |
|                              | <u>\$30 419 800</u> | <u>\$24 349 773</u> |

**12. LONG-TERM DEBT**

|                                                                                                                                                                                                                                        | 2005                | 2004                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Loan, secured by the land and the building, with a net book value of \$19 107 052, repayable by monthly instalments of \$36 337 (including capital and interest), at a fixed rate of 6.19%, renewable in 2008 and falling due in 2023. | \$4 818 739         | \$4 951 888         |
| Loan, secured by the land and building, with a net book value of \$19 107 052, repayable by monthly instalments of \$53 783 (capital only), at a fixed rate of 5.79%, renewable in 2009 and falling due in 2027.                       | 14 413 944          | 15 059 340          |
| Loans, repayable by monthly instalments of \$214 678 (including capital and interest), at fixed rates of 6.01% and 6.38%, falling due in 2005 and 2008.                                                                                | 4 723 540           | 7 879 001           |
| Loans, repayable by monthly instalments of \$228 489 (capital only) and annual payments of \$256 429 (capital only), at fixed rates varying from 3.16% to 4.98%, falling due between 2007 and 2012.                                    | 13 152 000          | 8 761 721           |
| Loan, repayable by monthly instalments of \$11 694 (capital only), at a fixed rate of 5.41%, renewable in 2010 and falling due in 2023.                                                                                                | <u>2 525 940</u>    | <u>2 666 270</u>    |
|                                                                                                                                                                                                                                        | 39 634 163          | 39 318 220          |
| Portion of long term debt payable within one year                                                                                                                                                                                      | <u>(5 700 826)</u>  | <u>(5 984 167)</u>  |
|                                                                                                                                                                                                                                        | <u>\$33 933 337</u> | <u>\$33 334 053</u> |

**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**12. LONG-TERM DEBT** (cont'd)

Instalments of long-term debt required during the next five years are the following:

|      |             |
|------|-------------|
| 2006 | \$5 700 826 |
| 2007 | 4 985 338   |
| 2008 | 4 592 290   |
| 2009 | 3 859 057   |
| 2010 | 2 612 759   |

**13. DESCRIPTION OF BENEFIT PLANS**

Héma-Québec has several defined benefit plans, both funded and non-funded, which guarantee the payment of pensions, post-retirement benefits other than pensions and post-employment benefits to most employees.

The defined benefit pension plans are based on the number of years of service and the average salary at the time of the employee's retirement. They also provide for partial indexation of pension benefits, in keeping with the inflation rate.

Before January 1, 2004, Héma-Québec also offered to certain employees defined contribution plans. As of April 1, 2005, the employees who enjoyed rights under the defined contribution plans were given the opportunity to convert these rights to defined benefit plans. The impact of this event was reflected in the statements as at March 31, 2005 by an increase in the accrued benefits obligation of \$10 251 000 and an increase in the fair value of the assets of \$7 904 000.

**Total cash payments**

Total cash payments for future benefits for 2005, which consists of Héma-Québec's contributions to its funded pension plans, amounts paid directly to beneficiaries in the case of its other, non-funded plans, and contributions to its defined contributions plan, amounted to \$6 351 145 (\$5 189 913 in 2004).

**Dates for valuations of defined benefit plans**

Héma-Québec values its accrued benefits obligations and the fair value of the assets of the plans for accounting purposes as at March 31 of each year. The effective dates of the most recent actuarial valuations, as well as of the upcoming mandatory valuations for the purposes of funding those plans that are funded, are as follows:

|                                                                                          | <u>Date of most recent<br/>actuarial valuation</u> | <u>Date of mandatory<br/>actuarial valuation</u> |
|------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------|
| Unionized employees' pension plan                                                        | December 31, 2002                                  | December 31, 2005                                |
| Pension plan for management, professional,<br>technical and administrative support staff | December 31, 2002                                  | December 31, 2005                                |

## HÉMA-QUÉBEC

COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**13. DESCRIPTION OF BENEFIT PLANS (cont'd)****Defined benefit plan obligations**

|                                                            | 2005                |                    | 2004                |                    |
|------------------------------------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                                            | Pension<br>plans    | Other<br>plans     | Pension<br>plans    | Other<br>plans     |
| <b>Variation in the accrued benefits obligation</b>        |                     |                    |                     |                    |
| Accrued benefit obligation at beginning<br>of current year | \$43 918 200        | \$3 878 575        | \$29 679 600        | \$4 957 097        |
| Current service cost                                       | 3 220 300           | 2 089 258          | 1 380 300           | 1 952 991          |
| Employees' contributions                                   | 2 512 000           |                    | 2 177 900           |                    |
| Interest cost on accrued benefit obligation                | 2 961 100           | 160 000            | 2 366 900           | 286 000            |
| Past services costs (changes to plans)                     | 2 347 000           |                    | 278 600             | 217 000            |
| Benefits paid                                              | (599 000)           | (2 240 145)        | (576 300)           | (1 931 513)        |
| Actuarial losses                                           | 1 942 200           | 85 000             | 7 046 100           | 302 000            |
| Others                                                     | 7 904 000           |                    | 1 565 100           | (1 905 000)        |
| Accrued benefit obligation at end<br>of current year       | <u>\$64 205 800</u> | <u>\$3 972 688</u> | <u>\$43 918 200</u> | <u>\$3 878 575</u> |

**Defined benefit plan assets**

|                                                           | 2005                |                | 2004                |                |
|-----------------------------------------------------------|---------------------|----------------|---------------------|----------------|
|                                                           | Pension<br>plans    | Other<br>plans | Pension<br>plans    | Other<br>plans |
| <b>Variation in the fair value of plan assets</b>         |                     |                |                     |                |
| Fair value of plan assets at beginning<br>of current year | \$40 767 300        |                | \$30 187 200        |                |
| Héma-Québec contributions                                 | 4 111 000           |                | 3 258 400           |                |
| Employees' contributions                                  | 2 512 000           |                | 2 177 900           |                |
| Actual return on plan assets                              | 1 737 700           |                | 4 155 000           |                |
| Benefits paid                                             | (599 000)           |                | (576 300)           |                |
| Others                                                    | 7 904 000           |                | 1 565 100           |                |
| Fair value of plan assets at end<br>of current year       | <u>\$56 433 000</u> |                | <u>\$40 767 300</u> |                |

**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**13. DESCRIPTION OF BENEFIT PLANS (cont'd)****Composition of plan assets**  
(in % as at March 31)

|        | 2005 | 2004 |
|--------|------|------|
| Shares | 61%  | 62%  |
| Bonds  | 35%  | 34%  |
| Others | 4%   | 4%   |
| Total  | 100% | 100% |

**Reconciliation of financial situation and amounts recorded in the financial statements**

|                                                          | 2005             |                      | 2004               |                      |
|----------------------------------------------------------|------------------|----------------------|--------------------|----------------------|
|                                                          | Pension plans    | Other plans          | Pension plans      | Other plans          |
| Fair value of plan assets                                | \$56 433 000     |                      | \$40 767 300       |                      |
| Accrued benefit obligation                               | 64 205 800       | \$3 972 688          | 43 918 200         | \$3 878 575          |
| Financial situation - deficit                            | (7 772 800)      | (3 972 688)          | (3 150 900)        | (3 878 575)          |
| Unamortized transitional obligation                      | 40 500           |                      | 45 500             |                      |
| Cost of benefit for unamortized past services            | 2 547 400        | 109 000              | 225 500            | 163 000              |
| Net, unamortized actuarial losses                        | 5 739 400        | 1 052 000            | 2 368 600          | 1 011 000            |
| Accrued benefit asset (liability) at end of current year | <u>\$554 500</u> | <u>\$(2 811 688)</u> | <u>\$(511 300)</u> | <u>\$(2 704 575)</u> |

**Classification of amounts recorded in the Héma-Québec's financial statements**

|                           |                  |                    |                  |                    |
|---------------------------|------------------|--------------------|------------------|--------------------|
| Accrued benefit asset     | <u>\$554 500</u> |                    |                  |                    |
| Accrued benefit liability |                  | <u>\$2 811 688</u> | <u>\$511 300</u> | <u>\$2 704 575</u> |

Accrued benefit obligation is greater than asset for all Héma-Québec plans.

## HÉMA-QUÉBEC

COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**13. DESCRIPTION OF BENEFIT PLANS (cont'd)****Breakdown of cost recognized for the current year**

|                                                                                                                                   | 2005               |                    | 2004               |                    |
|-----------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                                                                   | Pension plans      | Other plans        | Pension plans      | Other plans        |
| Current service cost                                                                                                              | \$3 220 300        | \$2 089 258        | \$1 380 300        | \$1 952 991        |
| Interest charges for the accrued benefit obligation                                                                               | 2 961 100          | 160 000            | 2 366 900          | 286 000            |
| Past service costs (changes to plans)                                                                                             | 2 347 000          |                    | 2 561 400          | 217 000            |
| Actual return on plan assets                                                                                                      | (1 737 700)        |                    | (4 155 000)        |                    |
| Actuarial losses on the accrued benefit obligation                                                                                | 1 942 200          | 85 000             | 7 046 100          | 302 000            |
| Others                                                                                                                            |                    |                    |                    | (1 291 000)        |
| Elements of cost before considering its long-term maturity                                                                        | 8 732 900          | 2 334 258          | 9 199 700          | 1 466 991          |
| Variance between actual and expected return                                                                                       | (1 436 300)        |                    | 1 733 500          |                    |
| Variance between the amortization recognized for the actuarial loss and the actuarial loss for the current year of the obligation | (1 934 500)        | (41 000)           | (7 046 100)        | (242 000)          |
| Variance between the amortization of the past services costs and the past service costs (changes to plans) for the current year   | (2 321 900)        | 54 000             | (225 500)          | (163 000)          |
| Amortization of the transitional obligation                                                                                       | 5 000              |                    | 5 000              |                    |
| Adjustments considering the long-term maturity of the future benefits                                                             | (5 687 700)        | 13 000             | (5 533 100)        | (405 000)          |
| Cost for defined benefit plans                                                                                                    | 3 045 200          | 2 347 258          | 3 666 600          | 1 061 991          |
| Cost for defined contributions plans                                                                                              |                    |                    | 570 900            |                    |
| Cost for future benefits                                                                                                          | <u>\$3 045 200</u> | <u>\$2 347 258</u> | <u>\$4 237 500</u> | <u>\$1 061 991</u> |

**Main assumptions**

|                                                   | 2005          |             | 2004          |             |
|---------------------------------------------------|---------------|-------------|---------------|-------------|
|                                                   | Pension plans | Other plans | Pension plans | Other plans |
| <b>Accrued benefits obligation as at March 31</b> |               |             |               |             |
| Discount rate                                     | 5.75%         | 5.75%       | 6.00%         | 6.00%       |
| Rate of salary escalation                         | 4.00%         | 4.00%       | 4.00%         | 4.00%       |

**HÉMA-QUÉBEC**COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005**13. DESCRIPTION OF BENEFIT PLANS (cont'd)****Main assumptions (cont'd)**

|                                                  | 2005             |                | 2004             |                |
|--------------------------------------------------|------------------|----------------|------------------|----------------|
|                                                  | Pension<br>plans | Other<br>plans | Pension<br>plans | Other<br>plans |
| <b>Cost of benefit for year ended March 31</b>   |                  |                |                  |                |
| Discount rate                                    | 6.00%            | 6.00%          | 7.00%            | 7.00%          |
| Expected long-term rate of return on plan assets | 7.25%            |                | 7.25%            |                |
| Rate of salary escalation                        | 4.00%            | 4.00%          | 4.00%            | 4.00%          |

**Assumed trend rate for health-care costs**

|                                                        | 2005  | 2004  |
|--------------------------------------------------------|-------|-------|
| Initial trend rate of health-care costs as at March 31 | 8.50% | 9.00% |
| Level to which trend rate is declining                 | 5.00% | 5.00% |
| Year when the rate should stabilize                    | 2013  | 2013  |

**14. FINANCIAL INSTRUMENTS**

## FAIR VALUE OF FINANCIAL INSTRUMENTS

**Long-term debt**

As at March 31, 2005, the fair value of the long-term debt of \$39 634 163 (\$39 318 220 in 2004), came to \$41 810 897 (\$39 671 156 in 2004), in light of the discounted cash flow value at the market price for securities of a similar nature with regard to maturity dates and interest rates.

**Other assets and liabilities**

The fair value of the cash on hand, accounts receivable, subsidy to be received, short-term investment, bank overdraft, accounts payable and accrued liabilities amount to their book value, given their short term.

## DERIVATIVE INSTRUMENTS

**Foreign exchange contract**

Héma-Québec committed itself through a foreign exchange contract to purchase American currency in the amount of \$45 000 000 at a rate of 1.2251 for the period from April 1 to September 30, 2005 in order to manage certain identifiable risks linked to the purchase of products in foreign currency. As at March 31, 2005, Héma-Québec held no foreign exchange contracts.

**HÉMA-QUÉBEC****COMPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
for the year ended March 31, 2005**15. COMMITMENTS**

Héma-Québec has committed itself through long-term leases falling due at various dates over the next 30 years to its operations and administration premises. The leases for these premises include, in some cases, a five-year renewal option.

The rental expenses for these premises, for the financial year ended March 31, 2005, stood at \$1 511 105 (\$1 549 526 in 2004). The future minimum payments related to these long-term leases are the following:

|                     |             |
|---------------------|-------------|
| 2006                | \$2 036 415 |
| 2007                | 1 926 945   |
| 2008                | 1 890 456   |
| 2009                | 1 788 039   |
| 2010                | 1 541 832   |
| 2011 and subsequent | 37 152 588  |

**16. RELATED PARTY TRANSACTIONS**

In addition to operations among affiliates already disclosed in the financial statements, Héma-Québec is affiliated with all government departments and special funds, as well as all organizations and enterprises controlled directly or indirectly by the Government of Québec or subjected either to joint control or to significant common influence on the part of the Government of Québec. Héma-Québec has not concluded any business transactions with these affiliates other than in the normal course of its activities and according to usual business terms. These operations are not disclosed separately in the financial statements.

**17. COMPARATIVE FIGURES**

Certain figures for 2004 have been reclassified in order to conform to the presentation adopted in 2005.

**HÉMA-QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of Héma-Québec were drawn up by Management, which is responsible for their preparation and presentation, including some amounts that are based on best estimates and judgments of Management. This responsibility includes the choice of appropriate accounting policies in conformity with Canadian generally accepted accounting principles. The financial information presented elsewhere in this annual activity report is consistent with that given in the financial statements.

In order to discharge its responsibilities, Management maintains a system of internal accounting controls that will allow it to produce reliable financial statements and that are designed to provide reasonable assurance that assets are protected and that transactions are duly approved and accounted for correctly, within the required delays.

Héma-Québec recognizes that it is responsible for managing its affairs in conformity with the laws and regulations governing it.

Actuaries from the firm of Morneau Sobeco have been appointed as consultants to the Héma-Québec employees' pension plan.

The Board of Directors must monitor the manner in which Management carries out its responsibilities in relation to financial information and it has approved these financial statements.

The Auditor General of Québec has audited the financial statements of Héma-Québec, in accordance with Canadian generally accepted auditing standards, and his auditor's report reveals the nature and extent of the audit and the statement of his opinion. The Auditor General of Québec can, without any restriction whatsoever, meet with the Board of Directors to discuss any aspect of this audit.

Guy Lafrenière  
Vice-President, Administration & Finance

Dr. Francine Décary  
Chief Executive Officer

Montréal, June 3, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of Héma-Québec as at March 31, 2005, and the statement of operating results and net assets, as well as the statement of cash flows, for the financial year ended on that date. 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.

My audit has been conducted in accordance with Canadian generally accepted auditing standards. Those standards require that the audit be planned and performed 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. It 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 Héma-Québec as at March 31, 2005, and the results of its operations and its cash flows for the financial year ended on that date, in accordance with Canadian generally accepted accounting principles. In compliance with the requirements of the Auditor General Act (R.S.Q., Chapter V-5.01), I declare that, in my opinion, these principles have been applied in the same manner as during the preceding financial year.

Renaud Lachance, CA  
Auditor General of Québec

Québec City, June 3, 2005



**HYDRO-QUÉBEC**  
(R.S.Q., c. H-5)

**CONSOLIDATED STATEMENT OF OPERATIONS**  
for the year ended December 31,  
(in millions of dollars)

|                                                                   | <u>2004</u>         | <u>2003</u><br>(restated Note 2) |
|-------------------------------------------------------------------|---------------------|----------------------------------|
| <b>REVENUE</b>                                                    | <u>10 698</u>       | <u>10 509</u>                    |
| <b>EXPENDITURE</b>                                                |                     |                                  |
| Operations                                                        | 2 268               | 2 174                            |
| Electricity and fuel purchased                                    | 1 467               | 1 383                            |
| Depreciation and amortization (Note 3)                            | 1 941               | 1 830                            |
| Taxes (Note 4)                                                    | <u>620</u>          | <u>576</u>                       |
|                                                                   | <u>6 296</u>        | <u>5 963</u>                     |
| <b>OPERATING INCOME</b>                                           | 4 402               | 4 546                            |
| Financial expenses (Note 5)                                       | <u>2 261</u>        | <u>2 656</u>                     |
| Income from continuing operations before non-controlling interest | 2 141               | 1 890                            |
| Non-controlling interest                                          | <u>9</u>            | <u>4</u>                         |
| Income from continuing operations                                 | 2 132               | 1 886                            |
| Discontinued operations (Note 6)                                  | <u>303</u>          | <u>52</u>                        |
| <b>NET INCOME</b>                                                 | <u><u>2 435</u></u> | <u><u>1 938</u></u>              |

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
for the year ended December 31,  
(in millions of dollars)

|                                                                                | <u>2004</u>          | <u>2003</u><br>(restated Note 2) |
|--------------------------------------------------------------------------------|----------------------|----------------------------------|
| <b>BALANCE AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>                    | 10 863               | 9 897                            |
| Adjustment for retroactive application of change in accounting policy (Note 2) | <u>1</u>             | <u>(6)</u>                       |
| Balance at beginning of year, as restated                                      | 10 864               | 9 891                            |
| Net income                                                                     | <u>2 435</u>         | <u>1 938</u>                     |
|                                                                                | 13 299               | 11 829                           |
| Dividends declared (Note 20)                                                   | <u>1 350</u>         | <u>965</u>                       |
| <b>BALANCE AT END OF YEAR</b>                                                  | <u><u>11 949</u></u> | <u><u>10 864</u></u>             |

**HYDRO-QUÉBEC**

CONSOLIDATED BALANCE SHEET  
as at December 31,  
(in millions of dollars)

|                                               | 2004   | 2003<br>(restated<br>Note 2) |
|-----------------------------------------------|--------|------------------------------|
| <b>ASSETS</b>                                 |        |                              |
| <b>Fixed assets</b> (Note 7)                  | 51 589 | 50 904                       |
| <b>Current assets</b>                         |        |                              |
| Cash and cash equivalents                     | 94     | 192                          |
| Investments                                   | 72     | 236                          |
| Accounts receivable                           | 1 954  | 1 872                        |
| Swaps and sinking funds (Note 9)              | 43     | 101                          |
| Materials, fuel and supplies                  | 328    | 426                          |
|                                               | 2 491  | 2 827                        |
| <b>Other long-term assets</b>                 |        |                              |
| Investments (Note 8)                          | 252    | 794                          |
| Swaps and sinking funds (Note 9)              | 1 671  | 884                          |
| Trust for nuclear waste management (Note 10)  | 28     | 24                           |
| Goodwill (Note 11)                            | 79     | 298                          |
| Intangible assets (Note 12)                   | 732    | 711                          |
| Other assets (Note 13)                        | 1 194  | 1 289                        |
|                                               | 3 956  | 4 000                        |
|                                               | 58 036 | 57 731                       |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>   |        |                              |
| <b>Long-term debt</b> (Note 14)               | 32 521 | 34 351                       |
| <b>Current liabilities</b>                    |        |                              |
| Borrowings                                    | 53     | 77                           |
| Accounts payable and accrued liabilities      | 1 832  | 1 603                        |
| Dividends payable                             | 1 350  | 965                          |
| Accrued interest                              | 974    | 970                          |
| Current portion of long-term debt (Note 14)   | 1 948  | 1 629                        |
|                                               | 6 157  | 5 244                        |
| <b>Asset retirement obligations</b> (Note 15) | 264    | 234                          |
| <b>Other long-term liabilities</b> (Note 16)  | 2 357  | 2 005                        |
| <b>Perpetual debt</b> (Note 17)               | 391    | 440                          |
| <b>Non-controlling interest</b>               | 126    | 329                          |
| <b>SHAREHOLDER'S EQUITY</b> (Note 20)         |        |                              |
| Share capital                                 | 4 374  | 4 374                        |
| Retained earnings                             | 11 949 | 10 864                       |
| Translation adjustment                        | (103)  | (110)                        |
|                                               | 16 220 | 15 128                       |
|                                               | 58 036 | 57 731                       |

Yvon Lamontagne, Chairman of the Audit Committee  
André Bourbeau, Chairman of the Board of Directors

**HYDRO-QUÉBEC**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended December 31,  
(in millions of dollars)

|                                                                        | 2004           | 2003<br>(restated Note<br>2) |
|------------------------------------------------------------------------|----------------|------------------------------|
| <b>OPERATING ACTIVITIES</b>                                            |                |                              |
| Income from continuing operations                                      | 2 132          | 1 886                        |
| Depreciation and amortization of fixed and<br>intangible assets        | 1 845          | 1 750                        |
| Amortization of deferred charges                                       | 35             | 76                           |
| Amortization of other deferred charges (credits)<br>related to debt    | (225)          | 118                          |
| Change in non-cash working capital items (Note 21)                     | (3)            | (61)                         |
| Other                                                                  | 216            | 26                           |
|                                                                        | <u>4 000</u>   | <u>3 795</u>                 |
| <b>INVESTING ACTIVITIES</b>                                            |                |                              |
| Fixed and intangible assets                                            | (3 226)        | (3 052)                      |
| Long-term investments                                                  | 107            | 39                           |
| Disposal of investments, net of divested cash and<br>cash equivalents  | 894            |                              |
| Net change in short-term investments                                   | 159            | 697                          |
| Other                                                                  | (64)           | 3                            |
|                                                                        | <u>(2 130)</u> | <u>(2 313)</u>               |
| <b>FINANCING ACTIVITIES</b>                                            |                |                              |
| Issue of long-term debt                                                | 1 916          | 2 300                        |
| Maturity of long-term debt and sinking fund redemption                 | (1 802)        | (2 697)                      |
| Prepayment of long-term debt                                           | (738)          | (897)                        |
| Inflows (outflows) resulting from credit risk management               | (438)          | 257                          |
| Net change in short-term borrowings                                    | (9)            | 9                            |
| Dividends paid                                                         | (965)          | (763)                        |
| Other                                                                  | 79             | 210                          |
|                                                                        | <u>(1 957)</u> | <u>(1 581)</u>               |
| <b>CHANGE IN FOREIGN EXCHANGE ON CASH AND<br/>CASH EQUIVALENTS</b>     | <u>(3)</u>     | <u>(5)</u>                   |
| Cash flows from continuing operations                                  | (90)           | (104)                        |
| Cash flows from discontinued operations (Note 6)                       | (8)            | 3                            |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                         | (98)           | (101)                        |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF YEAR</b>              | <u>192</u>     | <u>293</u>                   |
| <b>CASH AND CASH EQUIVALENTS AT<br/>END OF YEAR</b>                    | <u>94</u>      | <u>192</u>                   |
| <b>ADDITIONAL DISCLOSURES WITH RESPECT<br/>TO CASH FLOWS (Note 21)</b> | <u></u>        | <u></u>                      |

**HYDRO-QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in millions of dollars)

**1. SIGNIFICANT ACCOUNTING POLICIES**

Under the provisions of the Hydro-Québec Act, the government corporation Hydro-Québec (the “Corporation”) 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. The Corporation is required, in particular, to supply heritage pool electricity in compliance with An Act respecting the Régie de l’énergie.

The consolidated financial statements include the accounts of the Corporation, its subsidiaries, all of which are wholly owned, and its joint ventures (collectively “Hydro-Québec”).

**Regulation**

An Act respecting the Régie de l’énergie grants the Régie de l’énergie (the “Régie”) exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by the Corporation. Consequently, the Corporation’s electricity transmission and distribution activities in Québec are said to be regulated. Moreover, this Act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a fair rate of return on the rate base.

The Corporation’s electricity transmission operations are subject to decision D-2002-95, handed down by the Régie in April 2002. In this decision, the Régie established the cost of service and granted a rate of return of 9.72% on the rate base, assuming a capital structure with 30% shareholder’s equity.

The Corporation’s power distribution operations are regulated by a series of decisions issued by the Régie from May 2003 to March 2004 (D-2003-232, D-2004-47 and D-2004-57) regarding the recognition of regulatory principles and practices to be applied in determining rates. Across-the-board rate increases of 3% and 1.41%, effective as of January 1 and April 1, 2004, respectively, were granted in these decisions, following which the rate of return on the rate base granted by the Régie to the Distributor was set at 7.99%, assuming a capital structure with 35% shareholder’s equity.

The consolidated financial statements take into account certain regulatory accounting practices authorized by the Régie and applied to the Corporation’s regulated activities. These practices differ from those applied in unregulated enterprises and relate mainly to the capitalization of net costs associated with disposals of fixed and intangible assets; the government reimbursement for the 1998 ice storm; deferred charges for incentive payments to customers affected by the rescission of dual-energy Rate BT, amortized as of April 1, 2006; deferred charges related to the Energy Efficiency Plan 2003-2006 and their amortization; as well as the capitalization of financial expenses to fixed assets under construction, including return on shareholder’s equity authorized by the Régie. In addition, the method of establishing the cost of the debt accepted by the Régie incorporates the impact of long-term derivative instruments used in the context of integrated risk management.

If rates were not regulated, the net costs associated with disposals of fixed assets, certain charges related to the Energy Efficiency Plan 2003-2006, and the deferred charges in connection with the rescission of dual-energy Rate BT would be included in Expenditure for the year in which they were incurred. The government reimbursement for the 1998 ice storm would be amortized over generally longer periods, and the capitalization of financial expenses would not include return on shareholder’s equity.

**Consolidation**

Interests in joint ventures are accounted for using the proportionate consolidation method. Investments in companies over which Hydro-Québec can exercise a significant influence are accounted for on an equity basis, whereas venture capital investments are generally recorded at cost. Other long-term investments are also recorded at cost.

The operations and cash flows of Hydro-Québec International holdings are consolidated with a one-quarter lag. The financial position of these holdings disclosed in Hydro-Québec’s consolidated balance sheet is as at September 30. If significant transactions or events occur during the fourth quarter, they are reflected in Hydro-Québec’s financial statements for its fiscal year.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires that Management make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could differ from those estimates.

**Revenue**

Revenue is recognized when electricity is delivered or services are rendered. Revenue from sales of electricity in Québec is recorded on the basis of cyclical billings and also includes revenue accrued in respect of electricity delivered but as yet unbilled.

**Income taxes**

The Corporation and most of its subsidiaries have not recorded any income taxes since they are government-owned and therefore exempt from paying taxes in Canada.

The incorporated subsidiaries and joint ventures subject to income tax use the liability method to account for income taxes.

**Foreign currency translation***Foreign currency transactions*

Revenue and expenditure resulting from foreign currency transactions are translated into the Canadian dollar equivalents at exchange rates in effect at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, and non-monetary items are translated at exchange rates in effect at the transaction date.

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 anticipated future sales in U.S. dollars in accordance with Accounting Guideline 13 of the Canadian Institute of Chartered Accountants (CICA) Handbook, "Hedging Relationships" (AcG13), in which case they are deferred to the year such sales are made.

*Foreign operations*

The financial statements of the main foreign operations considered to be 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. Exchange gains or losses are presented as a Translation adjustment under Shareholder's equity. The financial statements of foreign operations considered to be integrated in terms of financial management and operations are translated according to the temporal method.

**Fixed assets**

Fixed assets are carried at cost, which comprises materials, labor, other costs directly contributing to construction activities and financial expenses capitalized during construction. Contributions from third parties are applied against the cost of the related fixed assets.

Financial expenses capitalized to fixed assets under construction are determined using the average cost of long-term debt of the Corporation at the end of the previous year. Financial expenses capitalized to fixed assets under construction related to regulated transmission and distribution activities take return on shareholder's equity into account. The portion that corresponds to return on shareholder's equity is included in Revenue in the consolidated statement of operations.

The costs of fixed assets under construction are transferred to fixed assets in service when construction is completed and the facilities are commissioned.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Fixed assets (cont'd)**

Fixed assets are depreciated over their useful lives, primarily using the sinking fund method, at a rate of 3%. Under the Hydro-Québec Act, the depreciation period is restricted to a maximum of 50 years. The depreciation periods for the main classes of fixed assets are as follows:

|                                       |                |
|---------------------------------------|----------------|
| Hydraulic generation                  | 45 to 50 years |
| Thermal generation, including nuclear | 15 to 30 years |
| Transmission substations and lines    | 30 to 50 years |
| Distribution substations and lines    | 25 to 40 years |

When unregulated fixed assets are disposed of, 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. Upon disposal of regulated fixed assets, these costs are charged to a separate account and depreciated over a maximum period of 10 years, using the sinking fund method, at a rate of 3%.

**Impairment of long-lived assets**

Hydro-Québec reviews the carrying value of its fixed assets whenever events or changes in circumstances indicate that expected undiscounted net cash flows could be less than the carrying amount of the fixed assets. If such is the case, an impairment loss is recognized which corresponds to the amount by which the carrying value exceeds fair value.

**Cash and cash equivalents and short-term investments**

Cash and cash equivalents comprise cash on hand and liquid short-term investments with a maturity of three months or less from the date of acquisition. Investments with a maturity of three to 12 months are disclosed separately under Current assets in the balance sheet.

Short-term investments are recorded at unamortized cost.

**Employee future benefits**

The Corporation offers all 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 services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on best-estimate economic and demographic assumptions as determined by Management.

In order to establish its employee future benefit obligations, the Corporation has adopted the following policies:

- ▶ Past service costs arising from plan amendments and transitional balances relating to the Pension Plan and other post-retirement benefits as at January 1, 1999, are amortized over periods not exceeding employees' average remaining years of service, which totaled 13 years as at January 1, 2004 (13 years as at January 1, 2003), using the straight-line method.
- ▶ Amortization of actuarial gains or losses is recognized in Expenditure 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 market-related value of the assets of the plan, whichever is greater. Amortization corresponds to the excess divided by employees' expected average remaining years of service.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Employee future benefits (cont'd)**

- ▶ 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 held, and by valuing other asset classes at their fair value.
- ▶ The value of the benefit resulting from the difference between contributions actually paid by employees and their average contributions projected over the employees' expected average remaining years of service, for the year, is disclosed as a reduction of service cost, as contributions deemed paid. This amount is amortized using the method for amortizing actuarial gains and losses.

**Goodwill and intangible assets**

The excess of the cost of investments in subsidiaries and joint ventures over the share of the fair value of the net assets acquired is recorded as goodwill. Intangible assets are recorded at cost.

Goodwill and intangible assets with indefinite useful lives are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment in value. The excess of the carrying amount over the fair value is recorded in the statement of operations for the year in which the impairment is determined.

Intangible assets with finite useful lives are amortized over their useful lives. The methods and amortization periods used for these assets are as follows:

|                                |                                         |               |
|--------------------------------|-----------------------------------------|---------------|
| Software, licences and patents | straight-line and sinking fund<br>at 3% | 3 to 15 years |
| Rights                         | sinking fund at 3%                      | 40 years      |
| Environmental studies          | sinking fund at 3%                      | 5 years       |

**Sinking funds**

Sinking funds are created through the purchase of the Corporation's debentures, Government of Canada bonds, or bonds issued or guaranteed by the Québec government. The Corporation's debentures are deducted from long-term debt, while the other securities are presented under Swaps and sinking funds.

Sinking fund securities are carried at unamortized cost, a method whereby the difference between the cost and the par value at maturity is amortized over the remaining term of the security.

**Derivative instruments**

As part of integrated risk management, Hydro-Québec uses various derivative instruments to mitigate foreign exchange and interest rate risk associated with long-term debt, the foreign exchange risk related to sales and the risk related to fluctuating energy and raw material prices.

Hedge accounting is applied to derivative instruments designated as being hedged that meet AcG-13 criteria.

- ▶ Currency swaps used to manage exchange risk related to long-term debt and sales in U.S. dollars are translated at the closing exchange rates in effect at the balance sheet date. Those representing debit balances are reported as Swaps and sinking funds, while those representing credit balances are presented as Long-term debt. Gains or losses on currency swaps related to payments on long-term debt are included in the statement of operations, while gains or losses on currency swaps related to sales in U.S. dollars are deferred to maturity and recognized as financial expenses for the year in which the sales are made, in accordance with the practice approved by the Régie.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Derivative instruments (cont'd)**

- ▶ Interest rate exchanges that arise from currency swap agreements used to change long-term exposure to interest rate risk are off-balance sheet items. They are matched to interest expense on the borrowings to which they are related. The corresponding amounts payable or receivable are recorded as adjustments to accrued interest.
- ▶ Derivative instruments (forward contracts and swaps) used in the short term to manage financial risk over a period of no more than three years are recorded at cost. Realized gains or losses related to these instruments are deferred off-balance sheet and recognized in the statement of operations in the same period as the hedged item.
- ▶ Derivative instruments used to manage risks related to energy price fluctuations are accounted for at cost and the related gains or losses are deferred and charged to operations on a basis consistent with the recognition of the gains and losses of the underlying reverse risk position.

If a derivative instrument no longer satisfies hedging conditions, if it is sold or liquidated, or if Hydro-Québec terminates the designation of the hedging relationship, hedge accounting is no longer applied on a prospective basis. The fair value of the derivative instrument is then accounted for and deferred to be included in the statement of operations during the periods in which the hedged item affects operations. Should the hedged item cease to exist, the gains or losses deferred until then are immediately charged to operations.

When the conditions for hedge accounting cannot be applied, the realized and unrealized changes in fair value are recognized in the statement of operations in the period in which they occur.

The fair value of derivative instruments is based on the spot rates or 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 available forward rate or price for an equivalent instrument. Different valuation models recognized by financial markets are used to estimate the fair value of options.

**Asset retirement obligations**

The Corporation 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 fiscal 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 value of the liability. The 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 value of the liability associated with the asset retirement obligations, and the corresponding retirement adjustment is accounted for as part of the carrying amount of the related asset.

Estimated cash flows required to settle obligations are determined following studies taking into account various assumptions concerning the methods and timing to be adopted for the retirement of such assets. The Corporation periodically revises the valuation of these cash flows based on the various assumptions and estimates underlying the calculations, possible technological advances and changes in the standards and regulations governing the decommissioning of nuclear generating stations.

**Reclassification**

Some figures of the previous year have been reclassified in order to respect the presentation adopted in the current year.



**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**2. CHANGES IN ACCOUNTING POLICIES****Recent changes****2003***Disclosure of guarantees*

On January 1, 2003, Hydro-Québec adopted the recommendations of Accounting Guideline 14 of the CICA Handbook, "Disclosure of Guarantees" (AcG-14). Under this Guideline, Hydro-Québec is required to disclose information on the guarantees that it has given, regardless of the probability that it will have to make payments under these guarantees. Note 23, "Commitments and Contingencies", describes the disclosures required for guarantees.

*Disposal of Long-Lived Assets and Discontinued Operations*

On May 1, 2003, Hydro-Québec adopted the new recommendation of Section 3475 of the CICA Handbook, "Disposal of Long-Lived Assets and Discontinued Operations." This section establishes standards for recognition, measurement, presentation and disclosure relating to disposals of long-lived assets. It also provides criteria for classifying assets held for sale and requires that these assets be presented at the lower of cost and fair value, less the cost disposal. Finally, it provides criteria for classifying a disposal of assets as a discontinued operation and specifies the presentation and disclosure standards for discontinued operations and other disposals of long-lived assets. The adoption of these standards did not have any impact on the financial statements.

**2004***Hedging relationships*

On January 1, 2004, Hydro-Québec prospectively adopted the recommendations of AcG-13 of the CICA Handbook. The new Accounting Guideline establishes the conditions for applying hedge accounting. It deals specifically with the identification, designation, documentation and effectiveness of hedging relationships, as well as the discontinuance of hedge accounting. Hedge accounting is applied to derivative instruments used in risk management that conform to hedge accounting eligibility requirements, as described in Note 1. Changes in the fair value of derivative instruments that do not comply with these requirements are charged to operations.

As a result of the adoption of the new Guideline, hedging relationships that are no longer eligible for hedge accounting have been recorded in accordance with the transitional provisions. The difference between the carrying amount and the fair value of derivative instruments used in these hedging relationships has been deferred and will be recognized in the statement of operations for the same period as the gains, losses, revenue or expenditure initially related to the hedged item. Thus, for hedging relationships canceled as at January 1, 2004, the recognition in the balance sheet of derivative instruments at their fair value led to the recording of a deferred loss of approximately \$65 million.

*Impairment of Long-Lived Assets*

On January 1, 2004, Hydro-Québec prospectively adopted the recommendations of Section 3063 of the CICA Handbook, "Impairment of Long-Lived Assets." This section establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets intended for use by Hydro-Québec, and further states that a long-lived asset must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The test for recoverability is based on a comparison between the carrying amount of the asset and the expected undiscounted net cash flows which are directly associated with the asset and may result from its use and eventual disposal. If the expected undiscounted net cash flows are less than the carrying amount, an impairment loss is recognized corresponding to the amount by which the asset's carrying amount exceeds the fair value, which then becomes the new cost base of the asset. Fair value is based on discounted future cash flows if market prices are not available. The adoption of these standards did not have an impact on the 2004 financial statements.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**2. CHANGES IN ACCOUNTING POLICIES (cont'd)****Recent changes (cont'd)****2004 (suite)***Asset retirement obligations*

On January 1, 2004, Hydro-Québec adopted the recommendations of Section 3110 of the CICA Handbook, "Asset Retirement Obligations." This standard requires the recognition and measurement of liabilities for legal obligations associated with the retirement of an asset. The liability associated with an asset retirement obligation is measured initially at its fair value in the period in which the obligation is incurred, when a reasonable estimate of fair value can be made. A corresponding retirement cost is added to the carrying amount of the related asset and is amortized over its useful life. In subsequent periods, the liability is adjusted to reflect any changes due to the passage of time and to revisions made to the timing of the asset retirement or the amount of undiscounted cash flows relative to the original estimate. In accordance with the standard, Hydro-Québec applied these changes retroactively and the figures for the previous year have been restated.

The retroactive application of these recommendations resulted in a \$1-million increase in retained earnings as at January 1, 2004. The restatement of the 2003 figures resulted in a \$17-million rise in operating expenses, a \$24-million decrease in amortization expense, a \$29-million increase in fixed assets and a \$28-million rise in asset retirement obligations.

The adoption of this new standard did not significantly affect the net income of 2004. Fixed assets and asset retirement obligations as at December 31, 2004, increased by \$43 million and \$59 million, respectively.

The following table presents the impact of the application of the new accounting standard:

|                     | <u>2004</u>  | <u>2003</u>  |
|---------------------|--------------|--------------|
| Reported net income | 2 435        | 1 931        |
| Adjustment          |              | <u>7</u>     |
| Restated net income | <u>2 435</u> | <u>1 938</u> |

*Employee future benefits*

On June 30, 2004, Hydro-Québec adopted the recommendations of Section 3461 of the CICA Handbook, "Employee Future Benefits," concerning the disclosure of supplementary information intended to help the users of financial statements gain a better understanding of corporations' obligations with respect to employee future benefits.

*Generally accepted accounting principles and general standards of financial statement presentation*

On January 1, 2004, Hydro-Québec also adopted the recommendations of Sections 1100 and 1400 of the CICA Handbook, entitled respectively "Generally Accepted Accounting Principles" and "General Standards of Financial Statement Presentation." Section 1100 describes what constitutes Canadian generally accepted accounting principles (GAAP) and their sources. It also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, in cases where a matter is not dealt with explicitly in the primary sources of GAAP, thus establishing a new Canadian GAAP hierarchy. Section 1400 provides general instructions on financial statement presentation, and specifies what constitutes fair presentation in accordance with GAAP. The adoption of these standards did not have any impact on the financial statements.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**2. CHANGES IN ACCOUNTING POLICIES (cont'd)****Prospective changes in 2005***Investment companies*

The CICA has issued Accounting Guideline 18, "Investment Companies." Under this Guideline, investment companies are required to account for their investments at fair value in certain cases where such investments would normally be consolidated or accounted for on an equity basis. Criteria are provided to determine whether a company should be classified as an investment company. Companies that do not meet these criteria will be required to consolidate or account for their investments using the equity method. The Guideline also provides guidance on circumstances where fair value must be used in the financial statements of the parent company or entity exercising significant influence over the investment company. The provisions of the Guideline are effective for fiscal years beginning on or after July 1, 2004. The adoption of this Guideline could result in a reduction of approximately \$5 million in investments and an equivalent increase in operating expenses.

*Consolidation of variable interest entities*

The CICA has published Accounting Guideline 15, "Consolidation of Variable Interest Entities." This Guideline provides the consolidation principles applicable to certain entities over which control is exercised other than by voting rights. Its purpose is to provide guidance to determine when an enterprise must include the assets, liabilities and results of the operations of such an entity in its consolidated financial statements. The provisions are effective for fiscal years or interim periods beginning on or after November 1, 2004. Hydro-Québec is currently assessing the impact of this Guideline on the financial statements.

**3. DEPRECIATION AND AMORTIZATION**

|                                   | 2004         | 2003<br>(restated,<br>Note 2) |
|-----------------------------------|--------------|-------------------------------|
| Depreciation of fixed assets      | 1 739        | 1 637                         |
| Amortization of intangible assets | 106          | 113                           |
| Write-off of projects             | 41           | 30                            |
| Other                             | 55           | 50                            |
|                                   | <u>1 941</u> | <u>1 830</u>                  |

**4. TAXES**

|                                                                            | 2004       | 2003       |
|----------------------------------------------------------------------------|------------|------------|
| Capital tax                                                                | 324        | 296        |
| Tax on gross revenue as municipal real estate tax<br>on certain immovables | 249        | 235        |
| Municipal, school and other taxes                                          | 47         | 45         |
|                                                                            | <u>620</u> | <u>576</u> |

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**5. FINANCIAL EXPENSES**

|                                                 | 2004                | 2003                |
|-------------------------------------------------|---------------------|---------------------|
| <b>Interest</b>                                 |                     |                     |
| Interest on debt securities                     | 2 520               | 2 703               |
| Amortization of borrowing discount and expenses | 42                  | 43                  |
|                                                 | <u>2 562</u>        | <u>2 746</u>        |
| <b>Exchange loss (gain)</b>                     | (213)               | 105                 |
| <b>Loan guarantee fees</b>                      | 165                 | 184                 |
|                                                 | <u>(48)</u>         | <u>289</u>          |
| Less:                                           |                     |                     |
| Capitalized financial expenses                  | 236                 | 350                 |
| Net investment income                           | 17                  | 29                  |
|                                                 | <u>253</u>          | <u>379</u>          |
|                                                 | <u><u>2 261</u></u> | <u><u>2 656</u></u> |

**6. DISCONTINUED OPERATIONS**

On June 30, 2004, Hydro-Québec sold its interest in Noverco Inc. to the Caisse de dépôt et placement du Québec for a cash consideration of \$900 million, which generated a gain on disposal of \$265 million. Hydro-Québec sold the 54 common shares it held in Noverco Inc., representing 41.2% of the outstanding shares, together with warrants on an additional portion of 9.2% of the shares and subordinated notes with a face value of \$285 million. The Corporation had acquired its interest in Noverco in 1997 for \$482 million, as an investment in the Oil and Gas segment.

The operating results and cash flows for 2004 and 2003 were presented as discontinued operations. Results and cash flows for these operations are as follows:

|                                         | 2004              | 2003            |
|-----------------------------------------|-------------------|-----------------|
| <b>Operations</b>                       |                   |                 |
| Revenue                                 | <u>822</u>        | <u>936</u>      |
| Net income                              | 38                | 52              |
| Gain on disposal                        | <u>265</u>        | <u></u>         |
| Income from discontinued operations     | <u>303</u>        | <u>52</u>       |
| <b>Cash flows</b>                       |                   |                 |
| Operating activities                    | 134               | 114             |
| Investing activities                    | (73)              | (133)           |
| Financing activities                    | <u>(69)</u>       | <u>22</u>       |
| Cash flows from discontinued operations | <u><u>(8)</u></u> | <u><u>3</u></u> |

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**6. DISCONTINUED OPERATIONS** (cont'd)

The assets and liabilities of discontinued operations, as at the disposal date, were as follows:

|                                       | 2004              |
|---------------------------------------|-------------------|
| Cash and cash equivalents             | 6                 |
| Other current assets                  | 155               |
| Long-term assets                      | 1 491             |
|                                       | <u>1 652</u>      |
| Current liabilities                   | 137               |
| Long-term liabilities                 | 1 169             |
|                                       | <u>1 306</u>      |
| Net assets of discontinued operations | <u><u>346</u></u> |

**7. FIXED ASSETS**

|                            | 2004          |                          |                    |
|----------------------------|---------------|--------------------------|--------------------|
|                            | In service    | Accumulated depreciation | Under construction |
| Generation                 |               |                          |                    |
| Hydraulic                  | 27 674        | 6 763                    | 3 237              |
| Thermal, including nuclear | 2 515         | 1 479                    | 74                 |
| Other                      | 806           | 325                      | 21                 |
|                            | <u>30 995</u> | <u>8 567</u>             | <u>3 332</u>       |
| Transmission               |               |                          |                    |
| Substations and lines      | 21 225        | 5 539                    | 541                |
| Other                      | 2 186         | 1 185                    | 28                 |
|                            | <u>23 411</u> | <u>6 724</u>             | <u>569</u>         |
|                            | <u>54 406</u> | <u>15 291</u>            | <u>3 901</u>       |
| Distribution               |               |                          |                    |
| Substations and lines      | 10 104        | 3 310                    | 176                |
| Other                      | 2 047         | 1 036                    | 184                |
|                            | <u>12 151</u> | <u>4 346</u>             | <u>360</u>         |
| Construction               | 63            | 48                       | 9                  |
| Oil and gas                |               |                          |                    |
| Other                      | 1 096         | 744                      | 32                 |
|                            | <u>67 716</u> | <u>20 429</u>            | <u>4 302</u>       |
|                            |               |                          | <u>51 589</u>      |

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**7. FIXED ASSETS**

|                            | 2003          |                          |                    |                               |
|----------------------------|---------------|--------------------------|--------------------|-------------------------------|
|                            | In service    | Accumulated depreciation | Under construction | Total<br>(restated<br>Note 2) |
| Generation                 |               |                          |                    |                               |
| Hydraulic                  | 25 629        | 6 312                    | 3 280              | 22 597                        |
| Thermal, including nuclear | 2 485         | 1 380                    | 60                 | 1 165                         |
| Other                      | 832           | 334                      | 55                 | 553                           |
|                            | <u>28 946</u> | <u>8 026</u>             | <u>3 395</u>       | <u>24 315</u>                 |
| Transmission               |               |                          |                    |                               |
| Substations and lines      | 20 607        | 5 068                    | 611                | 16 150                        |
| Other                      | 2 330         | 1 280                    | 49                 | 1 099                         |
|                            | <u>22 937</u> | <u>6 348</u>             | <u>660</u>         | <u>17 249</u>                 |
| Distribution               |               |                          |                    |                               |
| Substations and lines      | 9 761         | 3 069                    | 214                | 6 906                         |
| Other                      | 2 014         | 1 004                    | 146                | 1 156                         |
|                            | <u>11 775</u> | <u>4 073</u>             | <u>360</u>         | <u>8 062</u>                  |
| Construction               | <u>60</u>     | <u>47</u>                | <u>2</u>           | <u>15</u>                     |
| Oil and Gas                | <u>1 360</u>  | <u>469</u>               | <u>10</u>          | <u>901</u>                    |
| Other                      | <u>846</u>    | <u>564</u>               | <u>80</u>          | <u>362</u>                    |
|                            | <u>65 924</u> | <u>19 527</u>            | <u>4 507</u>       | <u>50 904</u>                 |

As at December 31, 2004, the Corporation had cumulative costs related to suspended draft-design studies amounting to \$219 million (\$307 million as at December 31, 2003). These costs, for which financial expenses are not capitalized, are presented as fixed assets under construction.

Since the Corporation anticipates carrying out some of these projects at a later date, it periodically reviews the cumulative costs of its draft-design studies.

During such reviews, Management must use estimates and make assumptions that have an impact on the amounts reported for draft-design studies at the balance sheet date. Such projects are assessed in terms of profitability based on prevailing market conditions at the time of their commissioning, compliance with sustainable development principles and how well they are received by local communities. A significant change in the assessment based on these criteria could result in a reduction of the balance for draft-design studies.

When a major project related to regulated fixed assets is discontinued, the costs determined to be non-recoverable are not recorded as operating expenses but are deferred and amortized over a period of three years using the straight-line method.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**8. INVESTMENTS**

|                                                          | 2004 | 2003 |
|----------------------------------------------------------|------|------|
| At cost                                                  |      |      |
| Noverco Inc. (Note 6)                                    |      |      |
| Notes                                                    |      | 142  |
| Churchill Falls (Labrador) Corporation Limited (Note 23) |      |      |
| Bonds <sup>a</sup>                                       | 55   | 56   |
| Other <sup>b</sup>                                       | 144  | 189  |
|                                                          | 199  | 387  |
| At equity                                                |      |      |
| Enbridge Inc. <sup>c</sup> (Note 6)                      |      | 258  |
| Churchill Falls (Labrador) Corporation Limited (Note 23) | 53   | 48   |
| Meiya Power Company Limited <sup>d</sup>                 |      | 101  |
|                                                          | 53   | 407  |
|                                                          | 252  | 794  |

- a) Bonds secured by a general mortgage bearing interest at 7.5%, due in 2010, par value of \$60 million in 2004 (2003: \$62 million).
- b) Includes venture capital investments with a carrying value of \$72 million and a fair value of \$67 million as at December 31, 2004 (\$101 million and \$70 million as at December 31, 2003). The fair value of listed shares is based on the trading price at the balance sheet date, the fair value of unlisted shares is determined according to different valuation methods.
- c) The interest was held by Noverco Inc., which was sold on June 30, 2004.
- d) On July 2, 2004, Hydro-Québec sold its investment in Meiya Power for \$110 million, generating a gain on disposal of \$7 million.

**9. SWAPS AND SINKING FUNDS**

|                 | 2004  | 2003 |
|-----------------|-------|------|
| Swaps           | 1 710 | 981  |
| Sinking funds   | 4     | 4    |
|                 | 1 714 | 985  |
| less            |       |      |
| Current portion | 43    | 101  |
|                 | 1 671 | 884  |

**10. TRUST FOR NUCLEAR WASTE MANAGEMENT**

On November 15, 2002, An Act Respecting the Long-Term Management of Nuclear Fuel Waste came into force. This legislation calls for nuclear energy companies that are owners of such waste in Canada to form a waste management organization as a separate legal entity and to set up a trust with a financial institution in order to finance the implementation of the nuclear fuel waste management proposal that will be adopted by the Government of Canada. In order to fulfill the financial responsibilities incumbent on nuclear fuel waste owners, the Corporation deposited an initial amount of \$20 million in a trust within 10 days of the date the Act came into force. It will be required to deposit an additional \$4 million per year in the same trust until the waste management organization determines the amount to be paid by each nuclear plant owner. The Corporation has been making the required payments since 2002. The sums are invested in short-term marketable securities, and interest accumulated on trust assets is returned to the trust.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**11. GOODWILL**

The changes in the carrying amount of goodwill per reportable segment are as follows:

|                              | 2004       |              |             |       |
|------------------------------|------------|--------------|-------------|-------|
|                              | Generation | Transmission | Oil and Gas | Total |
| Balance at beginning of year | 10         | 68           | 220         | 298   |
| Changes in foreign exchange  |            | 1            |             | 1     |
| Disposal of interest         |            |              | (220)       | (220) |
| Balance at end of year       | 10         | 69           |             | 79    |
|                              | 2003       |              |             |       |
|                              | Generation | Transmission | Oil and Gas | Total |
| Balance at beginning of year | 10         | 70           | 222         | 302   |
| Changes in foreign exchange  |            | (2)          |             | (2)   |
| Other                        |            |              | (2)         | (2)   |
| Balance at end of year       | 10         | 68           | 220         | 298   |

The Corporation performed annual impairment tests and no reduction in the value of goodwill was identified.

**12. INTANGIBLE ASSETS**

| 2004                        |      |                          |                    |
|-----------------------------|------|--------------------------|--------------------|
|                             | Cost | Accumulated amortization | Net carrying value |
| Subject to amortization     |      |                          |                    |
| Software and licences       | 716  | 473                      | 243                |
| Rights                      | 111  | 35                       | 76                 |
| Environmental studies       | 121  | 102                      | 19                 |
| Patents                     | 37   | 20                       | 17                 |
|                             | 985  | 630                      | 355                |
| Not subject to amortization |      |                          |                    |
| Servitudes                  |      |                          | 377                |
|                             | 985  | 630                      | 732                |
| 2003                        |      |                          |                    |
|                             | Cost | Accumulated amortization | Net carrying value |
| Subject to amortization     |      |                          |                    |
| Software and licences       | 611  | 381                      | 230                |
| Rights                      | 110  | 33                       | 77                 |
| Environmental studies       | 118  | 95                       | 23                 |
| Patents                     | 38   | 15                       | 23                 |
|                             | 877  | 524                      | 353                |
| Not subject to amortization |      |                          |                    |
| Servitudes                  |      |                          | 358                |
|                             | 877  | 524                      | 711                |

The Corporation performed annual impairment tests and no reduction in the value of non-amortizable intangible assets was identified.



## HYDRO-QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**13. OTHER ASSETS**

|                                                 | 2004         | 2003         |
|-------------------------------------------------|--------------|--------------|
| Government reimbursement for the 1998 ice storm | 152          | 166          |
| Accrued benefit asset (Note 22)                 | 865          | 844          |
| Deferred charges                                | 177          | 279          |
|                                                 | <u>1 194</u> | <u>1 289</u> |

**14. LONG-TERM DEBT****Composition and maturities**

Debentures, other long-term debt and swaps representing financial liabilities, translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date, are summarized in the following table. These amounts are presented by year of maturity and include the sinking funds.

| Maturity             | Debt of the Corporation |               |                  |                      |                     | Sub-sidiaries and joint ventures | 2004          | 2003          |
|----------------------|-------------------------|---------------|------------------|----------------------|---------------------|----------------------------------|---------------|---------------|
|                      | Canadian dollars        | U.S. dollars  | Other currencies | Sinking Funds        | Total               |                                  | Total         | Total         |
| 2004                 |                         |               |                  |                      |                     |                                  |               | 1 629         |
| 2005                 | 1 053                   | 715           | 159              | (19)                 | 1 908               | 40                               | 1 948         | 2 465         |
| 2006                 | 1 328                   | 1 569         | 299              | (72)                 | 3 124               | 75                               | 3 199         | 3 331         |
| 2007                 | 1 500                   | 562           | 26               | (325)                | 1 763               | 224                              | 1 987         | 2 106         |
| 2008                 | 186                     | 31            | 1 288            |                      | 1 505               | 12                               | 1 517         | 1 704         |
| 2009                 | 496                     | 36            | 6                | (4)                  | 534                 | 22                               | 556           |               |
| 1 to 5 years         | 4 563                   | 2 913         | 1 778            | (420)                | 8 834               | 373                              | 9 207         | 11 235        |
| 6 to 10 years        | 3 201                   | 2 663         | 105              | (208)                | 5 761               | 691                              | 6 452         | 7 435         |
| 11 to 15 years       | 241                     | 532           | 614              | (43)                 | 1 344               | 31                               | 1 375         | 1 380         |
| 16 to 20 years       | 4 679                   | 2 532         |                  | (106)                | 7 105               | 78                               | 7 183         | 7 373         |
| 21 to 25 years       | 66                      | 2 166         |                  | (167)                | 2 065               | 1                                | 2 066         | 1 311         |
| 26 to 30 years       | 1 055                   | 1 342         |                  | (11)                 | 2 386               |                                  | 2 386         | 3 426         |
| 31 to 35 years       | 4 649                   |               |                  | (87)                 | 4 562               |                                  | 4 562         | 3 062         |
| 36 to 40 years       | 285                     |               |                  |                      | 285                 |                                  | 285           | 278           |
| 41 to 45 years       | 12                      |               |                  |                      | 12                  |                                  | 12            |               |
| 46 to 50 years       | 82                      |               |                  |                      | 82                  |                                  | 82            | 50            |
| 51 to 55 years       |                         |               |                  |                      |                     |                                  |               |               |
| 56 to 60 years       | 859                     |               |                  |                      | 859                 |                                  | 859           | 430           |
|                      | 19 692 <sup>a</sup>     | 12 148        | 2 497            | (1 042) <sup>b</sup> | 33 295 <sup>c</sup> | 1 174                            | 34 469        | 35 980        |
| Less Current portion | 1 053                   | 715           | 159              | (19)                 | 1 908               | 40                               | 1 948         | 1 629         |
|                      | <u>18 639</u>           | <u>11 433</u> | <u>2 338</u>     | <u>(1 023)</u>       | <u>31 387</u>       | <u>1 134</u>                     | <u>32 521</u> | <u>34 351</u> |

- a) Includes \$155 million and \$341 million in zero-coupon bonds, reported at their discounted value at a semiannually computed interest rate of 10.95% and 10.67% respectively. Their par value will reach \$282 million and \$1 729 million in 2010 and 2020 respectively. Other bonds, reported at their discounted value and amounting to \$1 189 million, will reach a par value of \$1 333 million at maturity.

## HYDRO-QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**14. LONG-TERM DEBT** (cont'd)**Composition and maturities** (cont'd)

b) The sinking funds include a special fund created for the majority of the significant discounted debt. This fund totaled \$425 million as at December 31, 2004 (\$152 million as at December 31, 2003).

c) Includes \$31 349 million in bonds guaranteed by the Québec government (\$32 812 million as at December 31, 2003).

**Allocation of debt by currency at time of issue and impact of swaps and sinking funds**

The following table summarizes long-term debt, including the current portion, in Canadian dollars and other currencies. Also shown are the effects of currency swaps and sinking funds allocated to repay debt, which are presented in the balance sheet under Swaps and sinking funds.

**Allocation of debt by currency at time of issue and impact of swaps and sinking funds** (cont'd)

|                                                    | 2004                                     |                                                                         |                         |        | 2003   |
|----------------------------------------------------|------------------------------------------|-------------------------------------------------------------------------|-------------------------|--------|--------|
|                                                    | Long-term debt                           |                                                                         |                         |        |        |
|                                                    | In Canadian dollars and other currencies | At the closing exchange rates as at the balance sheet date <sup>a</sup> | Swaps and sinking funds | Total  | Total  |
| <b>Debt of the Corporation</b>                     |                                          |                                                                         |                         |        |        |
| Canadian dollars                                   | 19 076                                   | 19 076                                                                  | (3)                     | 19 073 | 19 081 |
| U.S. dollars                                       | 8 866                                    | 11 722                                                                  | (1 427)                 | 10 295 | 11 574 |
| Other currencies                                   |                                          |                                                                         |                         |        |        |
| Euros                                              | 673                                      | 1 285                                                                   | (178)                   | 1 107  | 1 107  |
| Yen                                                | 36 500                                   | 515                                                                     | (38)                    | 477    | 525    |
| Pounds sterling                                    | 240                                      | 595                                                                     | (61)                    | 534    | 534    |
| Swiss francs                                       | 97                                       | 102                                                                     | (6)                     | 96     | 96     |
|                                                    |                                          | 2 497                                                                   | (283)                   | 2 214  | 2 262  |
|                                                    |                                          | 33 295                                                                  | (1 713)                 | 31 582 | 32 917 |
| <b>Subsidiaries and joint ventures<sup>b</sup></b> |                                          | 1 174                                                                   | (1)                     | 1 173  | 2 078  |
|                                                    |                                          | 34 469                                                                  | (1 714)                 | 32 755 | 34 995 |

a) Includes \$1 460 million in financial liabilities composed of currency swaps (\$923 million as at December 31, 2003) and \$1 042 million in Hydro-Québec securities held in the sinking funds (\$732 million as at December 31, 2003).

b) Long-term debt composed of \$845 million in U.S. dollars and \$328 million in Unidades de Fomento (indexed Chilean pesos) (\$831 million in Canadian dollars, \$925 million in U.S. dollars, \$319 million in Unidades de Fomento and \$3 million in Chinese renminbi as at December 31, 2003).

## HYDRO-QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**14. LONG-TERM DEBT** (cont'd)**Allocation of debt by currency at time of issue and at time of repayment**

The following table shows the allocation of debt, net of sinking funds, converted into Canadian dollars after taking swaps into account, according to the currency at time of issue and time of repayment.

|                                                    | 2004             |                      | 2003             |                      |
|----------------------------------------------------|------------------|----------------------|------------------|----------------------|
|                                                    | At time of issue | At time of repayment | At time of issue | At time of repayment |
| <b>Debt of the Corporation</b>                     |                  |                      |                  |                      |
| Canadian dollars                                   | 19 073           | 23 208               | 19 081           | 20 439               |
| U.S. dollars                                       | 10 295           | 8 374 <sup>a</sup>   | 11 574           | 12 478               |
| Other currencies                                   | 2 214            |                      | 2 262            |                      |
|                                                    | <u>31 582</u>    | <u>31 582</u>        | <u>32 917</u>    | <u>32 917</u>        |
| <b>Debt of the subsidiaries and joint-ventures</b> |                  |                      |                  |                      |
| Canadian dollars                                   |                  |                      | 831              | 831                  |
| U.S. dollars                                       | 845              | 451                  | 925              | 672                  |
| Other currencies                                   | 328              | 722                  | 322              | 575                  |
|                                                    | <u>1 173</u>     | <u>1 173</u>         | <u>2 078</u>     | <u>2 078</u>         |
|                                                    | <u>32 755</u>    | <u>32 755</u>        | <u>34 995</u>    | <u>34 995</u>        |

a) Of this amount, 73.1% was used to hedge sales in U.S. dollars as at December 31, 2004, (94.1% as at December 31, 2003).

**Interest rates**

The Hydro-Québec interest rates presented in the following table take into account nominal interest rates on borrowings, the related discounts and expenses, and the effect of interest rate swaps.

| Maturity         | 2004             |              |                  |                  | 2003             |
|------------------|------------------|--------------|------------------|------------------|------------------|
|                  | Canadian dollars | U.S. dollars | Other currencies | Weighted average | Weighted average |
| 1 to 5 years     | 5.43             | 9.89         | 4.59             | 5.86             | 5.24             |
| 6 to 10 years    | 8.62             | 7.31         | 8.20             | 7.96             | 7.37             |
| 11 to 15 years   | 6.01             | 8.43         | 9.70             | 8.33             | 7.81             |
| 16 to 20 years   | 10.61            | 9.18         | 9.20             | 10.09            | 10.01            |
| 21 to 25 years   | 6.00             | 8.55         |                  | 8.46             | 8.45             |
| 26 to 30 years   | 6.70             | 8.65         |                  | 7.77             | 8.30             |
| 31 to 35 years   | 5.99             |              |                  | 5.99             | 6.15             |
| 36 to 40 years   | 6.41             |              |                  | 6.41             | 6.41             |
| 41 to 45 years   |                  |              |                  |                  |                  |
| 46 to 50 years   | 6.44             |              |                  | 6.44             | 6.44             |
| 51 to 55 years   |                  |              |                  |                  |                  |
| 56 to 60 years   | 6.62             |              |                  | 6.62             | 6.62             |
| Weighted average | 7.71             | 8.52         | 7.30             | 7.97             | 7.94             |

The variable-rate portion of Hydro-Québec's debt amounted to 25.0%, or 25.9% after perpetual debt, as at December 31, 2004 (24.5%, or 25.4% after perpetual debt, as at December 31, 2003). For information purposes, a 1% change in the interest rate would change net income by \$86 million (2003: \$90 million), not including the impact of derivative instruments used to manage short-term financial risk (Note 18).

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**14. LONG-TERM DEBT** (cont'd)**Fair value**

As at December 31, 2004, the fair value of Hydro-Québec's debt amounted to \$43 969 million (\$45 594 million as at December 31, 2003). Net of sinking funds and after swaps, it totaled \$42 449 million (\$44 445 million as at December 31, 2003).

Fair value is obtained by discounting future cash flows, based on term and closing interest rates as at the balance sheet date for similar instruments available on financial markets. Changes in fair value reflect sensitivity to financial market interest rates. However, Management intends to retain these debt securities until maturity. Therefore, as at December 31, 2004, Hydro-Québec did not foresee any significant debt repayments that could result in the realization of this fair value.

Hydro-Québec has undrawn revolving standby credits totaling US\$1 500 million and expiring in 2006 and 2009. Any borrowing under these lines of credit will bear interest at a rate based on the London Interbank Offered Rate (LIBOR).

**15. 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 irradiated nuclear fuel from its operation, the dismantling of oil tanks, the dismantling of certain thermal generating stations and the retirement of certain power transmission lines.

Hydro-Québec has also identified other asset retirement obligations for which no liability has been recorded. These relate to assets with an undetermined useful life, for which the Corporation does not have sufficient information to set a realistic obligation maturity schedule. A liability stemming from these asset retirement obligations will be accounted for in the period in which there is sufficient information to set such a schedule.

The aggregate carrying value of asset retirement obligations is as follows:

|                              | 2004                                                  |                                     |              |       |
|------------------------------|-------------------------------------------------------|-------------------------------------|--------------|-------|
|                              | Dismantling<br>of<br>nuclear<br>generating<br>station | Removal<br>of<br>irradiated<br>fuel | Other assets | Total |
| Balance at beginning of year | 140                                                   | 72                                  | 22           | 234   |
| Plus liabilities incurred    | 13                                                    | 3                                   | 1            | 17    |
| Plus accretion expense       | 9                                                     | 7                                   | 1            | 17    |
| Less liabilities settled     |                                                       |                                     | (4)          | (4)   |
| Balance at end of year       | 162                                                   | 82                                  | 20           | 264   |

## HYDRO-QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

## 15. ASSET RETIREMENT OBLIGATIONS (cont'd)

|                              | 2003                                                  |                                     |              |
|------------------------------|-------------------------------------------------------|-------------------------------------|--------------|
|                              | Dismantling<br>of<br>nuclear<br>generating<br>station | Removal<br>of<br>irradiated<br>fuel | Other assets |
|                              |                                                       |                                     | Total        |
| Balance at beginning of year | 131                                                   | 64                                  | 21           |
| Plus liabilities incurred    |                                                       | 1                                   | 1            |
| Plus accretion expense       | 9                                                     | 7                                   | 1            |
| Balance at end of year       | 140                                                   | 72                                  | 22           |
|                              |                                                       |                                     | 234          |

The carrying value of asset retirement obligations is based on the following key assumptions:

|                                                                                                           | Dismantling<br>of<br>nuclear<br>generating<br>station | Removal<br>of<br>irradiated<br>fuel | Other assets          |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------|-----------------------|
| Total undiscounted amount of estimated cash flows required to settle the obligations (in current dollars) | 463 <sup>a</sup>                                      | 519 <sup>a</sup>                    | 31                    |
| Expected timing of payment of the cash flows required to settle the obligations                           | Between 2012 and 2050 <sup>a</sup>                    | Between 2012 and 2047 <sup>a</sup>  | Between 2004 and 2043 |
| Credit-adjusted risk-free rate at which the estimated cash flows have been discounted (%)                 | 6.4                                                   | 6.4                                 | 6.4 and 7.0           |

- a) When Gentilly-2 nuclear generating station was designed, the Corporation planned to operate it for 30 years, until 2013. The Corporation initiated a draft-design study to evaluate whether its useful life could be extended by 25 years through rehabilitation. If the rehabilitation is not carried out, Management could decide to decommission the nuclear generating station a few years earlier, depending on technical and economic factors. Pending the decision, the financial statements reflect end-of-life in 2011 for purposes of calculating the depreciation of the station and the related decommissioning costs. Consequently, once the decision is made, the estimated undiscounted cash flows and the expected timing of payment of the cash flows required to settle the obligations could change and thus, asset retirement obligations and decommissioning costs as well as the depreciation expense and accretion expense, as recorded in these financial statements, may vary significantly based on the end-of-life date retained and the increase inherent in the method used to calculate depreciation and amortization. As at December 31, 2004, the net carrying value of Gentilly-2 was \$665 million. Based on the key assumptions established, asset retirement obligations relating to the dismantling of the nuclear generating station and the removal of irradiated fuel will total \$911 million and \$1 122 million, respectively, after factoring in a 2% inflation rate. However, the remaining portions of these obligations are scheduled to extend over periods of 46 years and 43 years, respectively.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**16. OTHER LONG-TERM LIABILITIES**

|                                        | 2004         | 2003         |
|----------------------------------------|--------------|--------------|
| Accounts payable                       | 255          | 280          |
| Accrued benefit liability (Note 22)    | 452          | 414          |
| Deferred foreign exchange gain         | 1 272        | 1 138        |
| Other deferred credits related to debt | 378          | 173          |
|                                        | <u>2 357</u> | <u>2 005</u> |

**17. PERPETUAL DEBT**

Perpetual notes in the amount of US\$325 million (US\$340 million as at December 31, 2003) bear interest at a rate established semiannually based on LIBOR. They are guaranteed by the Québec government and are redeemable only at the Corporation's option. In 2004, a portion amounting to US\$15 million was purchased on secondary markets and then canceled. In 2003, the perpetual notes ceased to naturally hedge sales in U.S. dollars. However, various derivative instruments recorded at fair value are used to mitigate exchange risk.

As at December 31, 2004, the fair value of these notes was \$370 million (\$402 million as at December 31, 2003). As at December 31, 2004 and 2003, the LIBOR for perpetual notes was 2.1425% and 1.25%, respectively.

**18. FINANCIAL INSTRUMENTS****Derivative instruments**

Hydro-Québec concludes currency swaps in order to manage the foreign exchange risk associated with payments of principal on long-term debt, interest payments and sales in U.S. dollars. Some of these currency swaps allow for interest rate exchanges to change long-term exposure to interest rate risk. Interest rate swaps that do not allow for exchanges of principal are also used to manage this risk.

The valuation of these swaps, with terms through 2033, showed a positive fair value of \$441 million (positive fair value of \$427 million as at December 31, 2003).

The following table shows the notional amount of these swaps, expressed in Canadian dollars and other currencies.

|                                                   | 1 to 5<br>years      | 6 to 10<br>years | 11 to 15<br>years | 16 to 20<br>years | Over 20<br>years | 2004<br>Total | 2003<br>Total |
|---------------------------------------------------|----------------------|------------------|-------------------|-------------------|------------------|---------------|---------------|
| <b>Canadian dollars</b>                           | (1 043) <sup>a</sup> | 288              | (38)              | (300)             | (3 043)          | (4 136)       | (1 185)       |
| <b>U.S. dollars</b>                               | 12                   | (106)            | (271)             | 226               | 2 330            | 2 191         | (565)         |
| <b>Other currencies</b>                           |                      |                  |                   |                   |                  |               |               |
| Yen                                               | 34 500               | 1 000            | 1 000             |                   |                  | 36 500        | 39 500        |
| Euros                                             | 612                  |                  | 61                |                   |                  | 673           | 673           |
| Pounds sterling                                   |                      | 40               | 200               |                   |                  | 240           | 240           |
| Swiss francs                                      | 97                   |                  |                   |                   |                  | 97            | 97            |
| Unidades de fomento<br>(indexed Chilean<br>pesos) | (4)                  | (7)              |                   |                   |                  | (11)          | (7)           |

a) Figures in parentheses represent amounts to be paid.

## HYDRO-QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**18. FINANCIAL INSTRUMENTS (cont'd)****Derivative instruments (cont'd)**

In managing short-term financial risks, Hydro-Québec assesses, on an ongoing basis, the overall impact of variations in exchange rates, interest rates and commodity prices. In order to manage this risk exposure, it holds options, forward contracts and swaps designed to hedge several positions. Although some of these instruments do not meet the conditions established by AcG-13, they help to mitigate financial risks.

Hydro-Québec also uses derivative instruments to manage market risks resulting from fluctuations in energy prices, and for negotiation purposes in order to act on business opportunities in markets outside Québec.

The fair value of these instruments is presented by specific risk in the following table. These derivative instruments mature through 2006.

|                                                          | 2004              |               | 2003              |               |
|----------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                          | Recorded<br>value | Fair<br>value | Recorded<br>value | Fair<br>value |
| <b>Exchange risk</b>                                     |                   |               |                   |               |
| Forward exchange contracts and options                   |                   |               |                   |               |
| Financial assets                                         | 15                | 47            | 1                 | 12            |
| Financial liabilities                                    | (296)             | (375)         | (38)              | (113)         |
|                                                          | (281)             | (328)         | (37)              | (101)         |
| <b>Interest rate risk</b>                                |                   |               |                   |               |
| Forward rate agreements, options and swaps               |                   |               |                   |               |
| Financial assets                                         | 5                 | 2             |                   | 11            |
| Financial liabilities                                    | (10)              | (15)          |                   | (25)          |
|                                                          | (5)               | (13)          |                   | (14)          |
|                                                          | (286)             | (341)         | (37)              | (115)         |
| <b>Risk of change in energy and<br/>commodity prices</b> |                   |               |                   |               |
| Forward contracts, options and swaps                     |                   |               |                   |               |
| Financial assets                                         | 12                | 12            |                   | 12            |
| Financial liabilities                                    | (11)              | (107)         |                   | (52)          |
|                                                          | 1                 | (95)          |                   | (40)          |
|                                                          | (285)             | (436)         | (37)              | (155)         |

**Other financial instruments**

The carrying amount of investments, accounts receivable, the trust fund for nuclear fuel waste management, borrowings, and accounts payable and accrued liabilities approximates their fair value. As at December 31, 2004, the weighted average interest rate on short-term investments was 2.26% (2.72% as at December 31, 2003) whereas it was 3.16% (4.18% as at December 31, 2003) on borrowings.

**Credit risk**

Derivative instruments include an element of risk since a counterparty might not meet its obligations. However, this risk is moderate as Hydro-Québec generally deals with Canadian and international financial institutions with high credit ratings. Credit risk exposure is also reduced by applying a credit policy limiting credit risk concentration and a customer credit risk assessment program, as well as by adopting credit limits, where necessary. As at December 31, 2004, no counterparty had defaulted on its obligations toward Hydro-Québec regarding investments and derivatives.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**18. FINANCIAL INSTRUMENTS (cont'd)****Credit risk (cont'd)**

Hydro-Québec is also exposed to a credit risk associated with trade receivables. However, this exposure is limited due to Hydro-Québec's large and diverse client base. Consequently, Management does not consider Hydro-Québec to be exposed to a major credit risk.

**19. INTERESTS IN JOINT VENTURES**

The share of the principal joint venture items included in the consolidated financial statements is presented in the table below. In 2004, these joint ventures specifically included interests in various foreign joint ventures, primarily through Hydro-Québec International, which were essentially involved in the construction and operation of transmission systems and hydroelectric generating stations, and were mainly based in South and Central America and Australia. In 2003, the share also included an interest in Noverco Inc., which was disposed of on June 30, 2004. The Corporation held 41.2% of the outstanding common shares of Noverco Inc. and options on an additional 9.16%.

|                                         | 2004        | 2003       |
|-----------------------------------------|-------------|------------|
| <b>Operations</b>                       |             |            |
| Revenue                                 | 82          | 82         |
| Expenditure and financial expenses      | 104         | 107        |
| Non-controlling interest                | 2           | 2          |
| Discontinued operations                 | 38          | 65         |
| Net income                              | <u>14</u>   | <u>38</u>  |
| <b>Balance sheet</b>                    |             |            |
| Current assets                          | 50          | 198        |
| Long-term assets                        | 484         | 1 944      |
| Current liabilities                     | 47          | 263        |
| Long-term liabilities                   | 153         | 1 075      |
| Non-controlling interest                | 27          | 230        |
| Net assets                              | <u>307</u>  | <u>574</u> |
| <b>Cash flows</b>                       |             |            |
| Operating activities                    | (20)        | 54         |
| Investing activities                    | (17)        | (75)       |
| Financing activities                    | 13          | (8)        |
| Discontinued operations                 | (1)         | 26         |
| Net change in cash and cash equivalents | <u>(25)</u> | <u>(3)</u> |



**HYDRO-QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

(in millions of dollars)

**20. SHAREHOLDER'S EQUITY**

The authorized share capital comprises 50 000 000 shares with a par value of \$100 each, and 43 741 090 shares were issued and paid-up.

Under the Hydro-Québec Act, any dividends to be paid by the Corporation are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given fiscal year, they cannot exceed the distributable surplus, equal to 75% of the year's operating income and net investment income, less interest on debt securities and amortization of borrowing discounts and expenses. This calculation is made on the basis of the consolidated financial statements.

However, in respect of a given fiscal 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 the Corporation has sent it the financial data relative to the distributable surplus. On expiry of the time prescribed, any 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 2004, the Québec government declared dividends of \$1 350 million, which is less than the maximum permitted.

The dividends declared are deducted from the retained earnings of the year for which they were declared.

**21. ADDITIONAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

|                                                       | 2004         | 2003         |
|-------------------------------------------------------|--------------|--------------|
| <b>Change in non-cash working capital items</b>       |              |              |
| Accounts receivable                                   | (177)        | 34           |
| Materials, fuel and supplies                          | (9)          | 10           |
| Accounts payable and accrued liabilities              | 173          | 80           |
| Accrued interest                                      | 10           | (185)        |
|                                                       | <u>(3)</u>   | <u>(61)</u>  |
| <b>Investing activities not affecting cash</b>        |              |              |
| Increase in fixed and intangible assets               | <u>366</u>   | <u>96</u>    |
| <b>Cash and cash equivalents paid during the year</b> |              |              |
| Interest paid                                         | <u>2 264</u> | <u>2 489</u> |

**22. EMPLOYEE FUTURE BENEFITS**

The Corporation's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on the number of years of service and average five best years of earnings. These benefits are indexed annually based on a rate which is the higher of the inflation rate, up to a maximum of 2%, and the inflation rate less 3%.

The Corporation 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**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**22. EMPLOYEE FUTURE BENEFITS (cont'd)**

The Corporation's employee benefit plans are defined benefit plans. Assets at their fair value and the accrued benefit obligations of these plans are valued by independent actuaries as at December 31 of each year. The most recent actuarial valuation for purposes of Pension Plan funding was made as at December 31, 2002, and the next valuation, as at December 31, 2003, should be filed in the first quarter of 2005.

The following tables present information concerning employee future benefits plans:

|                                             | Pension Plan |         | Other plans |       |
|---------------------------------------------|--------------|---------|-------------|-------|
|                                             | 2004         | 2003    | 2004        | 2003  |
| <b>Accrued benefit obligation</b>           |              |         |             |       |
| Balance at beginning of year                | 8 628        | 7 937   | 591         | 564   |
| Current service cost                        | 288          | 244     | 26          | 24    |
| Benefit payments and refunds                | (353)        | (329)   | (37)        | (34)  |
| Interest on obligations                     | 568          | 517     | 39          | 36    |
| Actuarial losses                            | 1 125        | 98      | 69          | 1     |
| Adjustments arising from plan amendments    |              | 161     |             |       |
| Balance at end of year                      | 10 256       | 8 628   | 688         | 591   |
| <b>Plan assets at fair value</b>            |              |         |             |       |
| Balance at beginning of year                | 9 217        | 8 326   | 49          | 46    |
| Actual return on plan assets                | 1 088        | 1 246   | 2           | 1     |
| Employee contributions                      | 38           | 6       |             |       |
| Contributions by the Corporation            | 25           | 1       | 5           | 7     |
| Benefit payments and refunds                | (353)        | (329)   | (7)         | (5)   |
| Administrative fees                         | (33)         | (33)    |             |       |
| Balance at end of year                      | 9 982        | 9 217   | 49          | 49    |
| <b>Surplus (deficit) at end of year</b>     | (274)        | 589     | (639)       | (542) |
| Unamortized past service costs              | 339          | 391     |             |       |
| Unamortized net loss (gain)                 | 2 169        | 1 385   | 65          | (7)   |
| Unamortized transitional obligation (asset) | (1 369)      | (1 521) | 122         | 135   |
| <b>Accrued benefit asset (liability)</b>    | 865          | 844     | (452)       | (414) |

The Pension Plan accounting deficit as at December 31, 2004, was primarily because the actuarial valuation was based on lower interest rates and an anticipated long-term increase in the inflation rate.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**22. EMPLOYEE FUTURE BENEFITS (cont'd)****Additional disclosures with respect to plan assets**

As at December 31, assets of the Pension Plan at fair value consisted of:

| %                       | 2004       | 2003       |
|-------------------------|------------|------------|
| Equities                | 55         | 54         |
| Bonds and debentures    | 31         | 34         |
| Real estate investments | 5          | 4          |
| Other                   | 9          | 8          |
|                         | <u>100</u> | <u>100</u> |

Plan assets include securities issued by the Corporation and certain related companies. These securities are grouped under the following asset classes:

|                        | Pension Plan |            | Other plans |           |
|------------------------|--------------|------------|-------------|-----------|
|                        | 2004         | 2003       | 2004        | 2003      |
| Bonds and debentures   | 656          | 547        | 32          |           |
| Equities               |              | 26         |             |           |
| Short-term investments | 1            |            | 11          | 41        |
|                        | <u>657</u>   | <u>573</u> | <u>43</u>   | <u>41</u> |

**Cash payments**

Cash payments made by the Corporation for employee benefit plans comprise the contributions paid to funded plans and the benefits paid to employees and pensioners. The cash payments consisted of:

|                                  | 2004             | 2003             |
|----------------------------------|------------------|------------------|
| Contributions by the Corporation |                  |                  |
| Pension Plan                     | 25               | 1                |
| Other plans                      | 5                | 7                |
| Benefit payments – Other plans   | 30               | 29               |
| <b>Cash payments</b>             | <u><u>60</u></u> | <u><u>37</u></u> |

The Corporation and its employees resumed their contributions to the Pension Plan on December 15, 2003. Contributions were resumed gradually at the rate of 1% of pensionable earnings for employees, and 1.8% of pensionable earnings for the Corporation in fiscal 2004. Subsequently, if the funding rate in the actuarial valuation report remains less than 110%, the employee and employer contribution rates will increase respectively by 1% and 1.8% annually to reach a maximum of 5.2% of pensionable earnings in both cases.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**22. EMPLOYEE FUTURE BENEFITS (cont'd)****Elements of accrued benefit cost recognized in the year**

|                                                                                                                    | Pension Plan |             | Other plans |           |
|--------------------------------------------------------------------------------------------------------------------|--------------|-------------|-------------|-----------|
|                                                                                                                    | 2004         | 2003        | 2004        | 2003      |
| Current service cost, <sup>a</sup> net of employee contributions                                                   | 227          | 214         | 26          | 24        |
| Administrative fees <sup>b</sup>                                                                                   | 33           | 33          |             |           |
| Interest on obligations                                                                                            | 568          | 517         | 39          | 36        |
| Actual return on plan assets                                                                                       | (1 088)      | (1 246)     | (2)         | (1)       |
| Actuarial losses                                                                                                   | 1 125        | 98          | 69          | 1         |
| Adjustments for plan amendments                                                                                    |              | 161         |             |           |
| Cost (credit) before adjustments required to recognize the long-term nature of employee future benefits            | 865          | (223)       | 132         | 60        |
| Difference between actual and expected return on assets                                                            | 364          | 503         |             |           |
| Difference between actuarial losses (gains) on accrued benefit obligations and actuarial losses (gains) recognized | (1 125)      | (98)        | (71)        | (2)       |
| Difference between adjustments for plan amendments and amortization of past service costs                          | 52           | (121)       |             |           |
| Amortization of transitional obligation (asset)                                                                    | (152)        | (152)       | 14          | 15        |
|                                                                                                                    | (861)        | 132         | (57)        | 13        |
| <b>Cost (credit) recognized in the year</b>                                                                        | <b>4</b>     | <b>(91)</b> | <b>75</b>   | <b>73</b> |

a) For the long-term disability salary insurance plan, current service cost corresponds to the cost of new disability cases for the year.

b) Administrative fees chargeable to the Pension Plan are fully billed by the Corporation.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**22. EMPLOYEE FUTURE BENEFITS (cont'd)****Significant actuarial assumptions**

The following actuarial assumptions, used to determine the accrued benefit obligations and cost of plans, result from a weighted average.

| %                                      | Pension Plan |      | Other plans |      |
|----------------------------------------|--------------|------|-------------|------|
|                                        | 2004         | 2003 | 2004        | 2003 |
| <b>Accrued benefit obligations</b>     |              |      |             |      |
| Rate at end of year                    |              |      |             |      |
| Discount rate                          | 6.03         | 6.67 | 6.03        | 6.67 |
| Salary escalation rate <sup>a</sup>    | 3.87         | 3.41 |             |      |
| <b>Accrued benefit cost recognized</b> |              |      |             |      |
| Rate at end of prior year              |              |      |             |      |
| Discount rate                          | 6.67         | 6.58 | 6.67        | 6.58 |
| Expected rate of return on plan assets | 6.86         | 7.07 | 3.53        | 3.31 |
| Salary escalation rate <sup>a</sup>    | 3.41         | 3.15 |             |      |

a) This rate takes salary increases into account as well as promotion opportunities while in service.

As at December 31, 2004, healthcare costs were based on an annual growth rate of 8.6% in 2005. Thereafter, based on the assumption used, this rate gradually decreases until it ultimately reaches 4.3% in 2015. As 1% change in this annual growth rate would have the following impact:

| %                                                                                            | 1% increase | 1% decrease |
|----------------------------------------------------------------------------------------------|-------------|-------------|
| Impact on current service cost and interest cost on accrued benefit obligations for the year | (3)         | 3           |
| Impact on accrued benefit obligations at end of year                                         | 32          | 39          |

**23. COMMITMENTS AND CONTINGENCIES****Electricity purchased**

On May 12, 1969, the Corporation signed a contract with Churchill Falls (Labrador) Corporation Limited (CF(L)Co) whereby the Corporation 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, the Corporation and CF(L)Co also 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, 2004, the Corporation was committed under 95 contracts to purchase electricity from other power producers, for an installed capacity of about 3 600 MW. It expects to purchase approximately 12.5 TWh of energy annually over the initial term of these contracts, which extend through 2033. The majority of these contracts include renewal clauses.

**Guarantees**

In the normal course of business, Hydro-Québec grants guarantees to third parties for indemnification purposes, mainly for energy purchase transactions. It also grants guarantees as part of its international operations and in the field of electrotechnology.

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**23. COMMITMENTS AND CONTINGENCIES (cont'd)****Guarantees (cont'd)**

Under the agreement with CF(L)Co, the Corporation could be required to provide additional funding if CF(L)Co were unable to pay its expenses and service its debt. The agreement fails to specify the maximum amount that the Corporation could be required to pay.

At December 31, 2004, the potential maximum amount the Corporation could have to pay under letters of credit or guarantees totaled \$441 million. Of this amount, \$376 million relates to the purchase of energy, and a liability in the amount of \$17 million has been recorded accordingly. Some guarantees expire between 2005 and 2019, while others do not have maturity dates.

In 2004, Hydro-Québec provided guarantees to the purchaser who acquired the interest in Noverco Inc. concerning all its representations in the sales agreement for a two-year period ending on June 30, 2006. It further guarantees additional tax liabilities until the expiry of a 60-day period after the date on which the tax authorities will no longer be authorized to assess tax.

**Capital expenditures**

The Corporation expects to invest approximately \$3 700 million in fixed assets in 2005.

**Agreements entered into with Aboriginal communities and regional county municipalities**

Hydro-Québec has entered into various agreements related to capital projects with Aboriginal communities and regional county municipalities. The commitments under these agreements are recorded under fixed assets if they meet the definition of a liability.

**Litigation**

In the normal course of business, Hydro-Québec is 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; it does not foresee any adverse effect of such contingent liabilities on Hydro-Québec's consolidated operating results or financial position.

**24. SEGMENTED INFORMATION**

Hydro-Québec has five operating segments, plus Corporate and Other Activities:

**Generation:** Hydro-Québec Production operates and develops the Corporation's generating facilities in Québec and a number of foreign facilities. This division also sells electricity on external markets and engages in energy trading activities. It provides Hydro-Québec Distribution with up to 165 TWh of heritage pool electricity annually at a fixed price of 2.79¢/KWh. In excess of this volume, it can participate in Hydro-Québec Distribution's calls for tenders in a context of free market competition.

**Transmission:** Hydro-Québec TransÉnergie develops and operates the Corporation's electric power transmission system and related telecommunications facilities in Québec. In addition, it manages and operates foreign transmission systems and carries out development projects abroad.

**Distribution:** Hydro-Québec Distribution operates and develops the Corporation's distribution system and is responsible for sales and service to Québec customers. It also ensures the security of the supply of electricity to the Québec market.

**Construction:** Hydro-Québec Équipement and Société d'énergie de la Baie James are involved in energy-related engineering services and construction projects in Québec.

**Oil and Gas:** Hydro-Québec Pétrole and gaz carries out activities intended to tap eastern Québec's oil and gas potential. Its exploration operations include seismic surveys and drilling wells with various partners in the Gulf of St. Lawrence, the St. Lawrence estuary and the Gaspé Peninsula.

## HYDRO-QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**24. SEGMENTED INFORMATION** (cont'd)

**Corporate and Other Activities:** Corporate and Other Activities include corporate activities, mainly financial services, human resources, corporate affairs, the activities of the Shared Services Centre, notably procurement, computer services and corporate telecommunications, as well as the activities managed by Hydro-Québec Technologie et développement industriel, i.e., research, technical support, industrial development of Hydro-Québec technologies, and capital venturing.

The amounts presented for each segment are based on the financial information used to establish the consolidated financial statements. The accounting policies used to calculate these amounts are as described in Note 1.

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 a maximum annual volume of heritage pool electricity of 165 TWh for the Québec market. This volume was not reached in 2004.

Information about the Distribution segment takes into account the decisions of the Régie (D-2004-47 dated February 26, 2004, and D-2004-170 dated August 16, 2004) concerning the dual-energy Rate BT, to be phased out by April 1, 2006. These decisions allow the segment to accumulate and defer the costs related to a portion of the deficit resulting from the Generation segment's supply cost of non-heritage pool electricity and the financial incentives paid to target customers for the period between January 1, 2004, and March 31, 2006. Deferred supply costs of \$53 million in 2004 were eliminated in preparing the consolidated financial statements and are presented in the "Intersegment and Other" column of the table below.

The other intersegment products and services are valued at full cost.

The following tables contain information related to operations and assets by segment as well as geographical information:

**Segments**

| 2004                                         |                   |                           |                     |                           |                        |                                               |                                         |              |
|----------------------------------------------|-------------------|---------------------------|---------------------|---------------------------|------------------------|-----------------------------------------------|-----------------------------------------|--------------|
|                                              | <u>Generation</u> | <u>Transmis-<br/>sion</u> | <u>Distribution</u> | <u>Construc-<br/>tion</u> | <u>Oil and<br/>Gas</u> | <u>Corporate<br/>and Other<br/>Activities</u> | <u>Inter-<br/>segment<br/>and Other</u> | <u>Total</u> |
| Revenue                                      |                   |                           |                     |                           |                        |                                               |                                         |              |
| – External customers                         | 1 361             | 306                       | 9 015               | 11                        |                        | 6                                             | (1)                                     | 10 698       |
| – Intersegment                               | 4 607             | 2 529                     | 55                  | 1 973 <sup>a</sup>        |                        | 891                                           | (10 055)                                |              |
| Depreciation and amortization                | 728               | 668                       | 451                 | 5                         |                        | 89                                            |                                         | 1 941        |
| Financial expenses                           | 1 038             | 834                       | 345                 |                           |                        | 43                                            | 1                                       | 2 261        |
| Income (loss) from continuing operations     | 1 664             | 365                       | 287                 | 3                         | (11)                   | (123)                                         | (53)                                    | 2 132        |
| Discontinued operations                      |                   |                           |                     |                           | 303                    |                                               |                                         | 303          |
| Net income (loss)                            | 1 664             | 365                       | 287                 | 3                         | 292                    | (123)                                         | (53)                                    | 2 435        |
| Capital expenditures (including intangibles) |                   |                           |                     |                           |                        |                                               |                                         |              |
| Affecting cash                               | 1 822             | 733                       | 607                 | 12                        |                        | 52                                            |                                         | 3 226        |
| Not affecting cash                           | 350               | 10                        | 6                   |                           |                        |                                               |                                         | 366          |
| Total assets                                 | 26 658            | 18 410                    | 10 284              | 245                       | 7                      | 2 666                                         | (234)                                   | 58 036       |

**HYDRO-QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(in millions of dollars)

**24. SEGMENTED INFORMATION** (cont'd)**Segments**

| 2003                                         |                   |                           |                     |                           |                        |                                               |                                         |              |
|----------------------------------------------|-------------------|---------------------------|---------------------|---------------------------|------------------------|-----------------------------------------------|-----------------------------------------|--------------|
|                                              | <u>Generation</u> | <u>Transmis-<br/>sion</u> | <u>Distribution</u> | <u>Construc-<br/>tion</u> | <u>Oil and<br/>Gas</u> | <u>Corporate<br/>and Other<br/>Activities</u> | <u>Inter-<br/>segment<br/>and Other</u> | <u>Total</u> |
| Revenue                                      |                   |                           |                     |                           |                        |                                               |                                         |              |
| – External customers                         | 1 511             | 321                       | 8 667               | 11                        |                        | (1)                                           |                                         | 10 509       |
| – Intersegment                               | 4 563             | 2 641                     | 44                  | 1 581 <sup>a</sup>        |                        | 786                                           | (9 615)                                 |              |
| Depreciation and amortization                | 669               | 624                       | 437                 | 5                         | 10                     | 85                                            |                                         | 1 830        |
| Financial expenses                           | 1 171             | 978                       | 452                 |                           |                        | 55                                            |                                         | 2 656        |
| Income (loss) from continuing operations     | 1 751             | 395                       | (133)               | 6                         | (17)                   | (110)                                         | (6)                                     | 1 886        |
| Discontinued operations                      |                   |                           |                     |                           | 52                     |                                               |                                         | 52           |
| Net income (loss)                            | 1 751             | 395                       | (133)               | 6                         | 35                     | (110)                                         | (6)                                     | 1 938        |
| Capital expenditures (including intangibles) |                   |                           |                     |                           |                        |                                               |                                         |              |
| Affecting cash                               | 1 431             | 980                       | 547                 | 4                         | 9                      | 85                                            | (4)                                     | 3 052        |
| Not affecting cash                           | 57                | 29                        | 10                  |                           |                        |                                               |                                         | 96           |
| Total assets                                 | 25 247            | 18 479                    | 9 931               | 244                       | 1 820                  | 2 191                                         | (181)                                   | 57 731       |

a) Intersegment revenue generated by the Construction segment includes an amount of \$1 973 million (2003: \$1 571 million) that corresponds to capital expenditures for other segments.

**Geographical information**

|                        | 2004           |                                      | 2003           |                                      |
|------------------------|----------------|--------------------------------------|----------------|--------------------------------------|
|                        | <u>Revenue</u> | <u>Fixed assets<br/>and goodwill</u> | <u>Revenue</u> | <u>Fixed assets<br/>and goodwill</u> |
| Québec                 | 9 060          | 49 390                               | 8 746          | 48 828                               |
| Canada, outside Québec | 127            | 22                                   | 151            | 29                                   |
| United States          | 1 174          | 230                                  | 1 315          | 372                                  |
| Chile                  | 229            | 1 685                                | 206            | 1 599                                |
| Other countries        | 108            | 341                                  | 91             | 374                                  |
|                        | <u>10 698</u>  | <u>51 668</u>                        | <u>10 509</u>  | <u>51 202</u>                        |



**HYDRO-QUÉBEC****MANAGEMENT REPORT**

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Hydro-Québec's consolidated financial statements and all additional information contained in the Annual Report are the responsibility of Management and are approved by the Board of Directors. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and in accordance with decisions handed down by the Régie de l'énergie with respect to the transmission and distribution of electricity and the distribution of natural gas in Québec. The financial statements include amounts determined based on Management's best estimates and judgment. Financial information presented elsewhere in the Annual Report is in accordance with the information provided in the 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 efficiency 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 the Corporation or in one of its subsidiaries. This committee's mandate is to ensure that the financial statements present fairly Hydro-Québec's financial position, the results of its operations and its cash flows. The Audit Committee meets regularly with Management, the General Auditor and the external auditors to discuss the results of their audits and their findings with respect to the integrity and the quality of the presentation of Hydro-Québec's financial information and the effectiveness of its internal controls systems. The General Auditor and the external auditors have full and unrestricted access to the Audit Committee, with or without Management's presence.

The consolidated financial statements have been audited jointly by the external auditors, Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and PricewaterhouseCoopers LLP, who were appointed by the shareholder.

André Bourbeau  
Chairman of the Board of Directors

André Caillé  
President and Chief Executive Officer

Daniel Leclair  
Executive Vice President,  
Finance and Chief Financial Officer

Montréal, Québec, March 16, 2005

**HYDRO-QUÉBEC****AUDITORS' REPORT**

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To the Minister of Finance of Québec

We have audited the consolidated balance sheet of Hydro-Québec as at December 31, 2004, and the consolidated statements of operations, retained earnings and cash flows for the year 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 audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Hydro-Québec as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. In compliance with the requirements of the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, after giving retroactive effect to the changes in accounting policies and except for the prospective application thereof, as explained in Note 2, 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

PricewaterhouseCoopers, LLP  
Chartered Accountants

Montréal, Québec, March 16, 2005

**HYDRO-QUÉBEC PENSION PLAN****STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

December 31, 2004

(in millions of dollars)

|                                          | <u>2004</u>  | <u>2003</u>  |
|------------------------------------------|--------------|--------------|
| <b>INVESTMENTS</b> (Note 3)              |              |              |
| Cash and short-term investments          | 774          | 622          |
| Nominal bonds                            | 2 657        | 2 724        |
| Real return bonds                        | 545          | 465          |
| Equities                                 |              |              |
| Canadian dollars                         | 3 068        | 2 879        |
| U.S. dollars                             | 1 174        | 889          |
| Other currencies                         | 1 284        | 1 193        |
| Mortgage loans                           | 22           | 23           |
| Real estate investments                  | 473          | 405          |
| Derivative financial instruments         | (21)         | 12           |
|                                          | <u>9 976</u> | <u>9 212</u> |
| <b>ACCOUNTS RECEIVABLE</b>               |              |              |
| Member contributions                     | 2            | 1            |
| Hydro-Québec's contributions             | 3            | 1            |
| Interest and dividends                   | 30           | 29           |
|                                          | <u>35</u>    | <u>31</u>    |
| <b>OTHER ASSETS</b>                      | <u>1</u>     |              |
|                                          | 10 012       | 9 243        |
| Less                                     |              |              |
| <b>ACCOUNTS PAYABLE</b>                  | <u>30</u>    | <u>26</u>    |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b> | <u>9 982</u> | <u>9 217</u> |

On behalf of Hydro-Québec,  
Yvon Lamontagne  
Chairman of the Audit Committee

Louis Lagassé  
Vice Chairman of the Board

**HYDRO-QUÉBEC PENSION PLAN**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
for the year ended December 31, 2004  
(in millions of dollars)

|                                                                   | <u>2004</u>         | <u>2003</u>         |
|-------------------------------------------------------------------|---------------------|---------------------|
| <b>INCREASE IN ASSETS</b>                                         |                     |                     |
| Investment income                                                 |                     |                     |
| Interest                                                          | 142                 | 157                 |
| Dividends                                                         | <u>147</u>          | <u>119</u>          |
|                                                                   | 289                 | 276                 |
| Changes in fair values of investments<br>during the year          | 798                 | 970                 |
| Contributions                                                     |                     |                     |
| Members                                                           | 38                  | 6                   |
| Hydro-Québec                                                      | <u>26</u>           | <u>1</u>            |
|                                                                   | <u>1 151</u>        | <u>1 253</u>        |
| <b>DECREASE IN ASSETS</b>                                         |                     |                     |
| Benefits paid                                                     | 328                 | 303                 |
| Transfers of values and refunds                                   | 25                  | 26                  |
| Administrative and investment expenses                            | <u>33</u>           | <u>33</u>           |
|                                                                   | <u>386</u>          | <u>362</u>          |
| <b>CHANGE IN NET ASSETS DURING THE YEAR</b>                       | 765                 | 891                 |
| <b>NET ASSETS AVAILABLE FOR BENEFITS<br/>AT BEGINNING OF YEAR</b> | <u>9 217</u>        | <u>8 326</u>        |
| <b>NET ASSETS AVAILABLE FOR BENEFITS<br/>AT END OF YEAR</b>       | <u><u>9 982</u></u> | <u><u>9 217</u></u> |

## HYDRO-QUÉBEC PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(in millions of 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").

##### a) General

The Hydro-Québec Pension Plan is a contributory defined benefit pension plan based on final pay and 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 aggregate of the Plan's investments.

##### b) Funding of the Plan

Member contributions and employer contributions, suspended since May 10, 1999, were reinstated beginning on December 15, 2003. In 2004, the rate of member contributions amounted to 1% of eligible earnings, whereas employer contributions represented 180% of member contributions.

The By-law provides for the suspension of member and employer contributions when an actuarial valuation report for the Plan shows a funding rate greater than or equal to 110%. The members and the employer will resume contributions when an actuarial valuation for Plan funding purposes presents a funding rate that is less than 110%. Member contributions cannot be increased by more than 1% of earnings each year, and employer contributions equal 180% of member contributions. Neither member contributions nor employer contributions may 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.

In addition, unless otherwise provided for in the By-law, Hydro-Québec must also pay equalization contributions to make up any unfunded actuarial liability or pay any amount required to ensure solvency of the Plan.

##### c) Retirement benefits

Retirement benefits are based on an annual pension credit in respect of years of contributory service and the average best years of earnings. Earnings include, for the members, any lump sum paid under the Incentive Plan of the company when only that plan applies. Earnings also include any lump sum related to performance and provided for under a corporate program or plan (including, if applicable, the Incentive Plan of the company), up to a limit of two-thirds of the maximum amount provided for under the corporate program or plan and not exceeding 20% of basic earnings.

#### Main elements of the benefits calculation

| Number of years<br>of contribution        | Annual<br>pension credit<br>(%) | Reference period<br>(average<br>earnings) |
|-------------------------------------------|---------------------------------|-------------------------------------------|
| Before 1966                               | 2.00                            | 5 years                                   |
| From 1966 to 1991                         | 2.25                            | 5 years                                   |
| From 1992 to 1998,<br>Whichever is higher | 2.00<br>2.25                    | 3 years<br>5 years                        |
| After 1998                                | 2.25                            | 5 years                                   |

Benefits in respect of years of service after 1991 are subject to the limits prescribed in the Income Tax Act (Canada). After retirement, these benefits are indexed according to a formula based on the consumer price index.

**HYDRO-QUÉBEC PENSION PLAN**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in millions of dollars)

**1. DESCRIPTION OF PLAN (cont'd)****c) Retirement benefits (cont'd)**

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.

On the 65<sup>th</sup> 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.

A bridging benefit, payable until the age of 65, is offered to members. The benefit is equal to 0.2% of average earnings over 5 years, up to the average maximum pensionable earnings of the 5 years preceding the date of termination of employment, death or retirement, multiplied by the number of years of service to the Plan prior to January 1, 2009.

An additional bridging benefit payable until the age of 60 is also offered to members concerned. The benefit is equal to 0.2% of average earnings over 5 years, up to the average maximum pensionable earnings of the 5 years preceding the date of termination of employment, death or retirement, multiplied by the number of years of service to the Plan prior to January 1, 2009.

*Temporary provisions*

The Plan offers members concerned pension benefits without reduction and with no minimum age specification, provided that the sum of their age and the number of years of service totals:

- 80, between January 1, 1997 and December 31, 2003;
- 81, between January 1, 2004 and December 31, 2004;
- 82, between January 1, 2005 and December 31, 2005;
- 83, between January 1, 2006 and December 31, 2006;
- 84, between January 1, 2007 and December 31, 2007;
- 85, between January 1, 2008 and December 31, 2008.

In addition, a subsidy equivalent to 50% of the cost of optional forms of pension (60% reversible and guaranteed for 10 years) is offered to all active members concerned who retire between January 1, 2004 and December 31, 2008, inclusively.

**d) Death benefits**

In the event of death, benefits are payable to a spouse, eligible children or beneficiaries. Survivor benefits can be payable as an annuity, a refund or transfer of the value of an annuity, or a refund or transfer of member contributions, as appropriate.

Such benefits may not, under any circumstances, be less than the contributions paid by the member, plus interest.

**e) Termination benefits (deferred retirement benefits, transfers of values and refunds)**

If the member is under 55 years of age at the time of termination of employment, the benefits payable will be the transfer of the actuarial present value of the retirement benefit 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 an immediate 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.

Such benefits may not, under any circumstances, be less than the contributions paid by the member, plus interest.

**f) Redemption of non contributory leaves of absence**

Under the Temporary Plan for redemption (Phase I introduced in 2001 and Phase II introduced in 2004), eligible members could pay a single lump sum contribution or spread the amount payable over a maximum period of five years. These amounts are recorded as member contributions.

## HYDRO-QUÉBEC PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in millions of dollars)

#### 1. DESCRIPTION OF PLAN (cont'd)

##### f) Redemption of non contributory leaves of absence (cont'd)

###### *Temporary provisions*

The By-laws providing for members to purchase various unpaid or partially paid leaves of absence remains in effect until December 31, 2008 for members concerned.

##### g) Transfer agreements

Under the By-law, the employer may draw up an agreement with any government, corporation or other organization that has a pension plan, to facilitate the mutual transfer of their employees. The amounts received under such agreements are paid to the Plan as member contributions and are used to recognize members' years of service in the Plan.

##### h) Administrative and investment expenses

According to the provisions of the By-law, administrative and investment expenses incurred by Hydro-Québec in respect of the Pension Plan are assumed by the pension fund.

##### i) 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 taxes.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### a) Basis of presentation

The financial statements have been prepared on a going concern basis. These financial statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of its sponsor and plan members, and are prepared to assist plan members and others in reviewing the activities of the Plan for the year. However, it does not portray the funding requirements of the Plan or the benefit security of individual members.

##### b) Investments

Investments are presented at fair value at year-end.

Investments are recorded according to the nature of the security, regardless of the associated derivative contracts.

Equities in U.S. dollars and in other currencies include investments denominated in foreign currencies, regardless of the residence of the investee.

###### *Cash and short-term investments*

Cash and short-term investments (bank deposits, Treasury Bills, deposit certificates and bankers' acceptances) are shown at cost, which approximates their fair value.

###### *Bonds*

Bonds are shown at average closing bond market prices.

###### *Equities*

Equities are shown at closing market prices. Dividends are recognized at the ex-dividend date.

**HYDRO-QUÉBEC PENSION PLAN**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in millions of dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****b) Investments (cont'd)***Mortgage loans*

Mortgage loans are shown at quoted fair value.

*Real estate investments*

Real estate investments are shown at their most recent estimated fair value. An independent appraisal is performed at least once a year.

*Derivative financial instruments*

Derivative financial instruments are shown at the closing price of financial markets. They include forward contracts, options and swap agreements.

**c) Other assets**

Other assets, which are comprised of computer equipment and deferred charges, are recorded at cost less accumulated amortization. They are amortized using the straight-line method over estimated useful lives of three years for computer equipment and four years for deferred charges.

**d) Foreign currency translation**

The fair value of the investments, interest and dividends receivable that are denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Revenue resulting from transactions made in foreign currencies is translated into Canadian dollars at exchange rates in effect at the transaction date.

**3. MANAGEMENT OF INVESTMENT PORTFOLIO**

As trustee, Hydro-Québec has adopted a pension fund investment management policy which sets forth the principles by which it prudently and diligently manages the investments of its pension fund in accordance with the applicable legislation and in the best interests of the members. This policy presents the benchmark portfolio (or long-term allocation target) based on the Plan's financial characteristics and obligations. Hydro-Québec favours asset diversification to limit the degree of risk. This policy enables the prudent use of derivative financial instruments in order to effectively manage, at the lowest cost, the pension fund's assets. More specifically, it enables the use of derivative financial instruments to manage the risks inherent in the investment portfolio or to modify the asset mix. These derivative financial instruments may also be used in certain trading portfolios in order to take advantage of market opportunities.

As at December 31, 2004, 53.4% (52.1% as at December 31, 2003) of the investment portfolio was managed by external firms.

The following table presents as at December 31, 2004, the fair value of Plan investments after allocating the derivative instruments based on the underlying financial asset:



## HYDRO-QUÉBEC PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in millions of dollars)

## 3. MANAGEMENT OF INVESTMENT PORTFOLIO (cont'd)

## Fair value of investments after allocating the effect of derivative contracts

|                                 | Investments  | Derivative contracts | As at December 31 |              |
|---------------------------------|--------------|----------------------|-------------------|--------------|
|                                 |              |                      | 2004              | 2003         |
| Cash and short-term investments | 774          | 9                    | 783               | 693          |
| Nominal bonds                   | 2 657        | (25)                 | 2 632             | 2 507        |
| Real return bonds               | 545          |                      | 545               | 465          |
| Equities                        |              |                      |                   |              |
| Canadian dollars                | 3 068        | (1)                  | 3 067             | 3 039        |
| U.S. dollars                    | 1 174        | (2)                  | 1 172             | 888          |
| Other currencies                | 1 284        | (2)                  | 1 282             | 1 192        |
| Mortgage loans                  | 22           |                      | 22                | 23           |
| Real estate investments         | 473          |                      | 473               | 405          |
|                                 | <u>9 997</u> | <u>(21)</u>          | <u>9 976</u>      | <u>9 212</u> |

*Composition of the investment portfolio*

The asset mix of the long-term benchmark portfolio, as described in the investment policy, is as follows: debt securities (35%) and equity securities (65%). Debt securities are comprised of nominal bonds (28%), real return bonds (5%), cash and short-term securities (2%). The asset mix for equity securities is as follows: Canadian equities (30%), U.S. equities (15%), international equities (15%) and real estate investments (5%). As per the investment policy, derivative financial instruments are linked to their underlying financial variables and the economic sensitivity of an investment vehicle or a group of vehicles, as well as its use in managing the investment portfolio, which determines its classification.

The following table summarizes Plan investments at their fair value as at December 31, presented in accordance with the investment policy's classification criteria. For purposes of this table, investments include interest and dividends receivable.

## Fair value of investments according to the classification of the investment policy.

|                                 | As at December 31, 2004   |                     | As at December 31, 2003   |                     |
|---------------------------------|---------------------------|---------------------|---------------------------|---------------------|
|                                 | Investments at fair value | Asset composition % | Investments at fair value | Asset composition % |
| <b><u>Debt securities</u></b>   |                           |                     |                           |                     |
| Nominal bonds                   | 2 755                     | 27                  | 2 625                     | 28                  |
| Real return bonds               | 546                       | 5                   | 466                       | 5                   |
| Cash and short-term securities  | 183                       | 2                   | 117                       | 1                   |
| <b><u>Equity securities</u></b> |                           |                     |                           |                     |
| Equities                        |                           |                     |                           |                     |
| Canadian                        | 3 363                     | 34                  | 3 130                     | 34                  |
| U.S.                            | 1 287                     | 13                  | 1 143                     | 12                  |
| International                   | 1 393                     | 14                  | 1 350                     | 15                  |
| Real estate investments         | 479                       | 5                   | 410                       | 5                   |
|                                 | <u>10 006</u>             | <u>100</u>          | <u>9 241</u>              | <u>100</u>          |

**HYDRO-QUÉBEC PENSION PLAN**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in millions of dollars)

**3. MANAGEMENT OF INVESTMENT PORTFOLIO (cont'd)***Foreign currency risk*

Foreign currency risk results from Plan investments denominated in currencies other than the Canadian dollar, such as U.S. and international equities.

Derivative contracts are used to manage this foreign currency risk and to take advantage of opportunities on the foreign exchange market.

The notional principle amount of forward exchange contracts, established in Canadian dollars according to the exchange rate stipulated in the contracts, was \$1 306M and represented a potential unrealized loss of \$4 2M as at December 31, 2004. This potential loss is recorded under "Changes in fair values of investments during the year".

*Credit risk*

As at December 31, 2004, the most significant concentration of credit risk is with the Government of Canada bonds and Treasury Bills and securities guaranteed by the Government. These securities, with a fair value of \$1 576M, represented 16.0% (\$1 797M and 19.6% as at December 31, 2003) of the total investment portfolio.

Certain derivative contracts include an element of risk, since a counterparty may be unable to meet its obligations. However, this is a low risk since Hydro-Québec, as Trustee, deals only with recognized stock exchanges and counterparties with high credit ratings.

**4. OBLIGATIONS FOR PENSION BENEFITS**

The actuarial consulting firm Groupe-conseil Aon inc. 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, 2004.

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.

**Fair value of net assets available over the actuarial present value of accrued retirement benefits**

|                                                                                                                                   | <u>2004</u>         |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>Fair value of net assets available for benefits</b>                                                                            | <u>9 982</u>        |
| <b>Actuarial present value of accrued benefits</b>                                                                                |                     |
| <b>Balance, at beginning of year</b>                                                                                              | 8 608               |
| Accrued benefits                                                                                                                  | 286                 |
| Accrued interest on accrued benefits                                                                                              | 567                 |
| Benefit payments, transfers of values and refunds                                                                                 | (353)               |
| Plan amendments                                                                                                                   |                     |
| Experience losses and changes in assumptions                                                                                      | <u>1 125</u>        |
| <b>Balance, at end of year</b>                                                                                                    | <u>10 233</u>       |
| <b>Deficit in fair value of net assets available for benefits over the actuarial present value of accrued retirement benefits</b> | <u><u>(251)</u></u> |

**HYDRO-QUÉBEC PENSION PLAN****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in millions of dollars)

**4. OBLIGATIONS FOR PENSION BENEFITS (cont'd)****Fair value of net assets available over the actuarial present value of accrued retirement benefits (cont'd)**

| <b>Significant actuarial assumptions</b> | <u>2004</u> |
|------------------------------------------|-------------|
| Discount rate                            | 6.03%       |
| Salary escalation rate <sup>a</sup>      | 3.87        |

a) This rate takes salary increases into account as well as promotion opportunities while in service.

Furthermore, the most recent actuarial valuation of the Hydro-Québec Pension Plan for funding purposes, dated December 31, 2003, states that the value of net assets exceeds the actuarial present value of accrued retirement benefits by \$678M.

**5. RELATED PARTY TRANSACTIONS**

The pension fund's investments include nominal bonds issued by Hydro-Québec and by its shareholder, the Government of Québec. These securities represent 6.6% of the net assets available for benefits (6.2% as at December 31, 2003). Also, the cost of services rendered by Hydro-Québec as administrative and investment expenses, totalled \$10.8M in 2004 (\$10.3M in 2003).

**6. CONTINGENCIES**

A class action suit has been filed against the trustee of the fund, Hydro-Québec, in order to have it recognize the right of retired members to a share of the surplus of the Hydro-Québec Pension Plan. On September 5, 2002, the Québec Superior Court dismissed the class action suit brought by the retired members. The retired members have appealed the decision. The appeal hearing took place on April 6, 7 and 8, 2004. Judgment has not yet been rendered in this case. As trustee, Hydro-Québec believes it is too early to assess the impact of the suit on the financial position of the Plan.

**7. COMPARATIVE FIGURES**

Certain figures for the previous year have been reclassified in order to conform to the presentation adopted in the current year.

**HYDRO-QUÉBEC PENSION PLAN****AUDITORS' REPORT**

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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, 2004 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, 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, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair,  
Deloitte & Touche, s.e.n.c.r.l.  
Chartered Accountants

PricewaterhouseCoopers, LLP  
Chartered Accountants

Montréal, Québec, February 15, 2005

**IMMOBILIÈRE SHQ**  
(R.S.Q., c. I-0.3)

INCOME AND RETAINED EARNINGS  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                       | <u>2004</u>    | <u>2003</u>    |
|-----------------------------------------------------------------------|----------------|----------------|
| <b>REVENUE</b>                                                        |                |                |
| Consideration receivable from agencies for use of<br>fixed assets     | 170 000        | 176 684        |
| Interest earned and other income                                      | 33 648         | 34 870         |
| Compensation to organizations for loss<br>on disposal of fixed assets |                | 504            |
| Gain on disposal of fixed assets                                      |                | 422            |
| Gouvernement du Québec subsidy                                        | <u>800</u>     | <u>700</u>     |
|                                                                       | <u>204 448</u> | <u>213 180</u> |
| <b>EXPENDITURE</b>                                                    |                |                |
| Interest                                                              | 160 074        | 168 170        |
| Amortization                                                          | 38 555         | 35 878         |
| Loss on disposal of fixed assets                                      |                | 504            |
| Dispute settlement                                                    | 8              |                |
| Amount remitted to agencies for gain on<br>sale of buildings          | 4              | 808            |
| Administrative expenses (Note 3)                                      | <u>800</u>     | <u>700</u>     |
|                                                                       | <u>199 441</u> | <u>206 060</u> |
| <b>NET INCOME</b>                                                     | 5 007          | 7 120          |
| <b>RETAINED EARNINGS, BEGINNING OF YEAR</b>                           | <u>16 513</u>  | <u>9 393</u>   |
| <b>RETAINED EARNINGS, END OF YEAR</b>                                 | <u>21 520</u>  | <u>16 513</u>  |

**IMMOBILIÈRE SHQ**

**BALANCE SHEET**  
as at December 31, 2004  
(in thousands of dollars)

|                                         | <u>2004</u>      | <u>2003</u>      |
|-----------------------------------------|------------------|------------------|
| <b>ASSETS</b>                           |                  |                  |
| Fixed assets (Note 4)                   | 1 716 973        | 1 755 149        |
| Loans (Note 5)                          | 425 271          | 437 380          |
| Accrued interest on loans               | 6 637            | 6 831            |
| Accounts receivable                     | 35 514           | 37 502           |
| Cash and cash equivalents (Note 6)      | <u>16 651</u>    | <u>14 191</u>    |
|                                         | <u>2 201 046</u> | <u>2 251 053</u> |
| <b>LIABILITIES</b>                      |                  |                  |
| Long-term debt (Note 7)                 | 2 027 271        | 2 081 033        |
| Short-term borrowing (Note 8)           | 85 786           | 85 786           |
| Deferred subsidies                      |                  |                  |
| Canada Mortgage and Housing Corporation | 5 093            | 5 146            |
| Gouvernement du Québec                  | 59               | 62               |
| Housing authority                       | 159              |                  |
| Interest accrued on debt and borrowing  | 47 558           | 48 808           |
| Accounts payable                        | <u>70</u>        | <u>175</u>       |
|                                         | <u>2 165 996</u> | <u>2 221 010</u> |
| <b>SHAREHOLDER'S EQUITY</b>             |                  |                  |
| Capital stock (Note 9)                  | 13 530           | 13 530           |
| Retained earnings                       | <u>21 520</u>    | <u>16 513</u>    |
|                                         | <u>35 050</u>    | <u>30 043</u>    |
|                                         | <u>2 201 046</u> | <u>2 251 053</u> |

**CONTINGENCIES** (Note 10)

On behalf of the Board of Directors,  
Roger Dionne, Chairman  
Jean-Luc Lesage, Vice-Chairman

**IMMOBILIÈRE SHQ****CASH FLOWS**

for the year ended December 31, 2004  
(in thousands of dollars)

|                                                             | <u>2004</u>          | <u>2003</u>          |
|-------------------------------------------------------------|----------------------|----------------------|
| <b>CASH FLOWS RELATED TO<br/>OPERATING ACTIVITIES</b>       |                      |                      |
| Cash inflows – organizations                                | 172 110              | 177 480              |
| Cash inflows – Gouvernement du Québec subsidy               | 800                  | 700                  |
| Cash inflow – contribution from a housing authority         | 159                  |                      |
| Cash payments – dispute settlement                          | 60                   |                      |
| Cash inflows – other                                        |                      | 4                    |
| Cash payments – administrative expenses                     | (800)                | (700)                |
| Cash payments – organizations                               | (235)                | (795)                |
| Interest received                                           | 33 722               | 35 024               |
| Interest paid                                               | <u>(161 324)</u>     | <u>(170 773)</u>     |
|                                                             | <u>44 492</u>        | <u>40 940</u>        |
| <b>CASH FLOWS RELATED TO<br/>INVESTMENT ACTIVITIES</b>      |                      |                      |
| Encashment on loans                                         | 12 109               | 11 844               |
| Proceeds from disposal of fixed assets                      | 4                    | 1 161                |
| Acquisition of fixed assets                                 | <u>(383)</u>         | <u></u>              |
|                                                             | <u>11 730</u>        | <u>13 005</u>        |
| <b>CASH FLOWS RELATED TO<br/>FINANCING ACTIVITIES</b>       |                      |                      |
| Repayment of short-term borrowing                           |                      | (4 614)              |
| Repayment of long-term debt                                 | <u>(53 762)</u>      | <u>(72 999)</u>      |
|                                                             | <u>(53 762)</u>      | <u>(77 613)</u>      |
| <b>INCREASE IN (DECREASE) CASH AND CASH<br/>EQUIVALENTS</b> | 2 460                | (23 668)             |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING<br/>OF YEAR</b>     | <u>14 191</u>        | <u>37 859</u>        |
| <b>CASH AND CASH EQUIVALENTS, END<br/>OF YEAR (Note 6)</b>  | <u><u>16 651</u></u> | <u><u>14 191</u></u> |

**IMMOBILIÈRE SHQ****NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2004

(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., chapter 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 entrusted the Société d'habitation du Québec, legal entity established by a special statute (R.S.Q., c. S-8), with the mandate of administering, for a consideration, its property and the resulting obligations and the mandate of managing the everyday affairs related to this property.

**2. ACCOUNTING POLICIES**

The financial statements of the Immobilière SHQ have been prepared by Société d'habitation du Québec management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are recorded at cost.

**Amortization**

Fixed assets are amortized over a service life varying between 35 and 40 years. Their amortization is calculated according to the annuity method (growing depreciation) at an annual rate of 7.5%.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash and short-term investments, highly liquid, that are easily convertible into a known amount of cash, whose value should not change significantly.

**3. ADMINISTRATIVE EXPENSES**

|                              | 2004       | 2003       |
|------------------------------|------------|------------|
| Wages and other remuneration | 27         | 40         |
| Management fees (Note 11)    | 773        | 660        |
|                              | <u>800</u> | <u>700</u> |

**4. FIXED ASSETS**

|              | 2004      |                          |           | 2003      |
|--------------|-----------|--------------------------|-----------|-----------|
|              | Cost      | Accumulated depreciation | Net       | Net       |
| Land *       | 101 764   |                          | 101 764   | 101 768   |
| Fixed assets | 1 782 901 | 167 692                  | 1 615 209 | 1 653 381 |
|              | 1 884 665 | 167 692                  | 1 716 973 | 1 755 149 |

\* Immobilière SHQ holds the superficies user's rights, for an unlimited duration, for land belonging to the Ville de Montréal for \$13.7 million.



**IMMOBILIÈRE SHQ**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at December 31, 2004  
(in thousands of dollars)

**5. LOANS**

|                                                                                                                        | 2004                          |                      |                      |         | 2003    |
|------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------|----------------------|---------|---------|
|                                                                                                                        | Fixed interest rates maturing |                      |                      |         |         |
|                                                                                                                        | from 2007<br>to 2019          | from 2020<br>to 2024 | from 2025<br>to 2030 | Total   | Total   |
| Loans guaranteed by real estate<br>mortgages, repayable in monthly<br>or annual instalments at an<br>interest rate of: |                               |                      |                      |         |         |
| 6.875%                                                                                                                 | 7 942                         | 62 121               |                      | 70 063  | 74 147  |
| 7.000% to 7.500%                                                                                                       | 196                           | 53 888               | 15 400               | 69 484  | 71 129  |
| 7.625% to 7.875%                                                                                                       | 99                            | 105 289              | 52 419               | 157 807 | 161 407 |
| 8.000% to 8.625%                                                                                                       |                               | 35 038               | 79 376               | 114 414 | 116 543 |
| 10.500% to 15.125%                                                                                                     | 1 734                         |                      | 195                  | 1 929   | 1 996   |
|                                                                                                                        | 9 971                         | 256 336              | 147 390              | 413 697 | 425 222 |
| Unsecured loans, repayable in<br>monthly instalments at an<br>interest rate of:                                        |                               |                      |                      |         |         |
| 5.050%                                                                                                                 |                               | 178                  |                      | 178     | 447     |
| 6.875%                                                                                                                 |                               | 8 579                |                      | 8 579   | 8 860   |
| 8.000%                                                                                                                 |                               |                      | 2 817                | 2 817   | 2 851   |
|                                                                                                                        |                               | 8 757                | 2 817                | 11 574  | 12 158  |
|                                                                                                                        | 9 971                         | 265 093              | 150 207              | 425 271 | 437 380 |

Encashments receivable over the coming fiscal years on loans are as follows:

|              |         |
|--------------|---------|
| 2005         | 10 845  |
| 2006         | 11 689  |
| 2007         | 12 599  |
| 2008         | 13 506  |
| 2009         | 14 559  |
|              | 63 198  |
| 2010 to 2015 | 114 589 |
| 2016 to 2020 | 140 404 |
| 2021 to 2025 | 91 467  |
| 2026 to 2030 | 15 613  |
| Total        | 425 271 |

**6. CASH AND CASH EQUIVALENTS**

|                                                | 2004   | 2003   |
|------------------------------------------------|--------|--------|
| Cash on hand                                   | 7 270  | 7 214  |
| Short-term investments, at cost 2.70% to 2.82% | 9 381  | 6 977  |
|                                                | 16 651 | 14 191 |

**IMMOBILIÈRE SHQ**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at December 31, 2004  
(in thousands of dollars)

**7. LONG-TERM DEBT**

|                                                                                                                        | 2004                 |                               |                      | 2003      |
|------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------|----------------------|-----------|
|                                                                                                                        | from 2005<br>to 2006 | Fixed interest rates maturing |                      | Total     |
|                                                                                                                        |                      | from 2007<br>to 2014          | from 2019<br>to 2032 |           |
|                                                                                                                        |                      |                               |                      | Total     |
| Canada Mortgage and Housing Corporation                                                                                |                      |                               |                      |           |
| Bonds                                                                                                                  |                      |                               |                      |           |
| 4.240% to 6.880%, repayable in monthly instalments                                                                     | 429 083 *            | 299 272 *                     |                      | 728 355   |
| 6.875% to 11% repayable in annual or semi-annual instalments and redeemable in advance                                 |                      | 196                           | 363 445              | 373 732   |
| 5.944%, repayable in annual instalments                                                                                |                      | 1 164                         | 308 700              | 315 459   |
| Loan guaranteed by real estate mortgage, 7.875%, repayable in monthly instalments                                      |                      |                               | 566                  | 566       |
|                                                                                                                        | 429 083              | 300 632                       | 672 711              | 1 402 426 |
| Other                                                                                                                  |                      |                               |                      | 1 367 692 |
| Bonds, repayable in annual instalments and insured by the Canada Mortgage and Housing Corporation at interest rate of: |                      |                               |                      |           |
| 9.300%                                                                                                                 |                      |                               |                      | 74 830    |
| 8.950% to 11.375%                                                                                                      |                      | 624 667 *                     |                      | 638 063   |
| Term loan, 5.050%, repayable in monthly instalments                                                                    |                      | 178 *                         |                      | 448       |
|                                                                                                                        |                      | 624 845                       |                      | 713 341   |
|                                                                                                                        | 429 083              | 925 477                       | 672 711              | 2 027 271 |
|                                                                                                                        |                      |                               |                      | 2 081 033 |

\* At term, the balance owing on these debts will be refinanced.

Assuming that refinancing would occur at term under the same conditions as when the financial statements were signed, the capital payments to make in the coming fiscal years on the long-term debt would be as follows:

|                        |         |
|------------------------|---------|
| 2005                   | 53 939  |
| 2006                   | 57 938  |
| 2007                   | 62 266  |
| 2008                   | 66 852  |
| 2009                   | 71 921  |
| Amount carried forward | 312 916 |

**IMMOBILIÈRE SHQ**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at December 31, 2004  
(in thousands of dollars)

**7. LONG-TERM DEBT (cont'd)**

|                        |                  |
|------------------------|------------------|
| Amount brought forward | 312 916          |
| 2010 to 2015           | 549 539          |
| 2016 to 2020           | 523 277          |
| 2021 to 2025           | 480 809          |
| 2026 to 2032           | <u>160 730</u>   |
| Total                  | <u>2 027 271</u> |

**8. SHORT-TERM BORROWING**

Immobilière SHQ is authorized to undertake short-term borrowings from financial institutions and Gouvernement du Québec's Financing Fund to a maximum of \$500 million. At December 31, 2004, Immobilière SHQ had contracted a short-term borrowing of \$85.8 million (2003: \$85.8 million) from the Gouvernement du Québec's Financing Fund.

Any borrowing contracted in keeping with this authorization bears interest at the rate negotiated at the time it was contracted, generally 1.5% less than the prime rate. At December 31, 2004, the rate was 2.304%.

**9. CAPITAL STOCK**

Immobilière SHQ shares are held by the Minister of Finance.

|                                                                | <u>2004</u>   | <u>2003</u>   |
|----------------------------------------------------------------|---------------|---------------|
| Authorized<br>150 000 shares with a par value<br>of \$100 each |               |               |
| Issued and paid up<br>135 300 shares                           | <u>13 530</u> | <u>13 530</u> |

**10. CONTINGENCIES****Lawsuits**

The balance in damages for court proceedings against Immobilière SHQ totals \$0.3 million. In the opinion of Immobilière SHQ, no liability can result from these proceedings since any loss will be assumed by the housing offices and included in their operating deficit, which is subsidized by the Société d'habitation du Québec.

**11. RELATED PARTY TRANSACTIONS**

During the year, Immobilière SHQ carried out transactions with related parties. The amount of these transactions and the resulting balances in the financial statement at year-end are as follows:

|                                                   | <u>2004</u> | <u>2003</u> |
|---------------------------------------------------|-------------|-------------|
| Société d'habitation du Québec<br>Management fees | 773         | 660         |

**IMMOBILIÈRE SHQ****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2004

(in thousands of dollars)

**11. RELATED PARTY TRANSACTIONS (cont'd)**

|                                                                | 2004   | 2003   |
|----------------------------------------------------------------|--------|--------|
| Société de gestion immobilière – SHQ                           |        |        |
| Consideration payable by organizations for use of fixed assets | 2 132  | 2 426  |
| Accounts receivable                                            | 369    | 384    |
| Corporation d'hébergement du Québec                            |        |        |
| Interest and other income                                      | 2 712  | 2 709  |
| Loans                                                          | 35 284 | 35 539 |
| Interest accrued on loans                                      | 1 316  | 1 327  |

In addition to the related party transactions disclosed in its financial statements, 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 either joint control or significant influence by it. Immobilière SHQ 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.

**12. FINANCIAL INSTRUMENTS****Interest rate risk**

The interest rate risk is minimal since the interest rates and terms of the loans and long-term debt to which they apply are the same for all intents and purposes.

The interest rates risk for the long-term debt for fixed assets belonging to Immobilière SHQ is also minimal since the consideration payable by agencies for the use of these fixed assets equals the amount of capital, interest, costs and related amounts for all long-term debts and short-term borrowings contracted to finance the acquisition, construction or renovation of these fixed assets.

**Credit risk**

Immobilière SHQ's exposure to credit risk in relation to assets is limited, given the large number of organizations comprising its clientele. Moreover, most of these organizations receive subsidies from the Gouvernement du Québec.

**Fair value of financial instruments***Loans*

The fair value of loans cannot be estimated given the lack of a market for this type of loan. These loans are at fixed rates for the remaining periods, generally more than 20 years.

*Long-term debt*

At December 31, 2004, the fair value of Immobilière SHQ's \$2 027 million (2003: \$2 081 million) long-term debt was \$2 227 million (2003: \$2 309 million), given the discounting of cash flows at comparable market rates for similar fixed-rate shares. However, in the above-mentioned fair value, \$673 million (2003: \$688 million) was not assessed and was considered at book value, given the lack of a market for this type of long-term debt. These long-term debts have guaranteed rates for periods generally spanning between 20 and 30 years.

*Other asset and liabilities*

The fair value of cash, short-term investments, accounts receivable, the short-term borrowing, interest charges and accounts payable is equivalent to their book value, given that they mature in the near future.

**IMMOBILIÈRE SHQ****MANAGEMENT'S REPORT**

---

In keeping with the management agreement between the Société d'habitation du Québec and Immobilière SHQ, the financial statements of Immobilière SHQ were drawn up by management, which is responsible for providing complete, accurate data, notably significant judgements and estimates. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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, the Société d'habitation du Québec maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that property is protected and transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. 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 oversees the manner in which the Société d'habitation du Québec performs its financial reporting duties, meets with the latter and the auditor general, reviews 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, 2004 in accordance with the auditing standards that are generally accepted in Canada. 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.

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.

Pierre Cliche  
President and Director General,  
Société d'habitation du Québec

Québec, March 7, 2005

**IMMOBILIÈRE SHQ****AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the balance sheet of the Immobilière SHQ as at December 31, 2004 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Immobilière SHQ. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, Immobilière SHQ's financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, March 7, 2005

**INSTITUT DE LA STATISTIQUE DU QUÉBEC**  
(R.S.Q., c. I-13.011)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                                     | <u>2005</u>             | <u>2004</u>             |
|-----------------------------------------------------|-------------------------|-------------------------|
| <b>REVENUE</b>                                      |                         |                         |
| Gouvernement du Québec subsidies                    |                         |                         |
| - Operating subsidy                                 | \$14 831 900            | \$16 416 700            |
| - Other non-recurrent subsidy                       | 663 293                 |                         |
| Services rendered                                   | 7 573 268               | 6 464 360               |
| Other revenue                                       | <u>144 026</u>          | <u>170 755</u>          |
|                                                     | <u>23 212 487</u>       | <u>23 051 815</u>       |
| <b>EXPENDITURE</b>                                  |                         |                         |
| Salaries and fringe benefits                        | 16 496 276              | 16 655 829              |
| Professional fees                                   | 1 666 334               | 1 004 725               |
| Rent                                                | 1 768 043               | 1 802 516               |
| Computer services and supplies                      | 699 283                 | 630 124                 |
| Purchase of statistical data                        | 304 439                 | 349 746                 |
| Communications                                      | 355 081                 | 313 722                 |
| Travel and accommodation expenses                   | 286 572                 | 282 941                 |
| Office expenses                                     | 151 688                 | 163 425                 |
| Printing costs                                      | 230 439                 | 161 598                 |
| Training costs                                      | 151 431                 | 114 306                 |
| Amortization of fixed assets                        | 385 403                 | 480 081                 |
| Amortization of intangible assets                   | 996 815                 | 503 016                 |
| Other expenses                                      | <u>277 613</u>          | <u>61 749</u>           |
|                                                     | <u>23 769 417</u>       | <u>22 523 778</u>       |
| <b>(DEFICIENCY) EXCESS REVENUE OVER EXPENDITURE</b> | (556 930)               | 528 037                 |
| <b>SURPLUS, BEGINNING OF YEAR</b>                   | <u>804 445</u>          | <u>276 408</u>          |
| <b>SURPLUS, END OF YEAR</b>                         | <u><u>\$247 515</u></u> | <u><u>\$804 445</u></u> |

The notes are an integral part of these financial statements.

## INSTITUT DE LA STATISTIQUE DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                                                 | 2005                | 2004                |
|---------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                   |                     |                     |
| <b>Current assets</b>                                                           |                     |                     |
| Cash on hand                                                                    | \$6 036 394         | \$5 136 101         |
| Accounts receivable                                                             | 1 807 839           | 1 446 185           |
| Amounts receivable from the Gouvernement<br>du Québec, without interest         | 325 260             | 266 199             |
| Work under way                                                                  | 393 100             | 159 102             |
| Prepaid expenses                                                                | 198 215             | 205 276             |
| Inventory                                                                       | 31 877              | 31 877              |
|                                                                                 | <u>8 760 808</u>    | <u>7 244 740</u>    |
| <b>Amounts receivable from the Gouvernement<br/>du Québec, without interest</b> |                     | 279 217             |
| <b>Fixed assets</b> (Note 3)                                                    | 879 834             | 892 620             |
| <b>Intangible assets</b> (Note 4)                                               | <u>3 109 772</u>    | <u>4 099 139</u>    |
|                                                                                 | <u>\$12 750 414</u> | <u>\$12 515 716</u> |
| <b>LIABILITIES</b>                                                              |                     |                     |
| <b>Current liabilities</b>                                                      |                     |                     |
| Accounts payable and accruals                                                   | \$1 016 414         | \$1 082 036         |
| Client advances on service contracts                                            | 1 212 670           | 492 210             |
| Deferred revenue                                                                | 3 491 216           | 3 045 702           |
| Vacation pay owing to employees                                                 | 1 744 578           | 1 769 816           |
|                                                                                 | <u>7 464 878</u>    | <u>6 389 764</u>    |
| <b>Deferred subsidy</b>                                                         | 1 687 154           | 2 151 186           |
| <b>Provision for sick leave</b> (Note 6)                                        | <u>3 350 867</u>    | <u>3 170 321</u>    |
|                                                                                 | 12 502 899          | 11 711 271          |
| <b>SURPLUS</b>                                                                  | <u>247 515</u>      | <u>804 445</u>      |
|                                                                                 | <u>\$12 750 414</u> | <u>\$12 515 716</u> |

The notes are an integral part of these financial statements.

Yvon Fortin  
Director General of  
the Institut de la statistique du Québec



## INSTITUT DE LA STATISTIQUE DU QUÉBEC

CASH FLOWS  
for the year ended March 31, 2005

|                                                                   | 2005                      | 2004                      |
|-------------------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                       |                           |                           |
| (Deficiency) Excess revenue over expenditure                      | \$(556 930)               | \$528 037                 |
| Adjustments for:                                                  |                           |                           |
| Amortization of fixed assets                                      | 385 403                   | 480 081                   |
| Amortization of intangible assets                                 | 996 815                   | 503 016                   |
| Increase in the provision for sick leave                          | 180 546                   | 217 216                   |
|                                                                   | <u>1 005 834</u>          | <u>1 728 350</u>          |
| Variation in non-cash elements linked to operations               |                           |                           |
| Decrease in accounts receivable                                   | (361 654)                 | (10 240)                  |
| Variation in work under way                                       | (233 998)                 | 272 172                   |
| Decrease in prepaid expenses                                      | 7 061                     | 39 166                    |
| Decrease in inventories                                           | 31 877                    | 7 376                     |
| Decrease in amounts receivable from the Gouvernement<br>du Québec | 220 156                   | 266 199                   |
| Decrease in accounts payable and accruals                         | (113 759)                 | (167 162)                 |
| Increase in advances from clients on service contracts            | 720 460                   | 219 875                   |
| Variation in deferred revenue                                     | 445 514                   | (440 774)                 |
| Variation in vacation pay owing to employees                      | (25 238)                  | 117 277                   |
| Decrease in deferred subsidy                                      | <u>(464 032)</u>          | <u>(152 884)</u>          |
| Cash flows provided by operating activities                       | <u>1 232 221</u>          | <u>1 879 355</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                      |                           |                           |
| Acquisitions of fixed assets                                      | (323 760)                 | (337 292)                 |
| Acquisitions intangible assets                                    | <u>(8 168)</u>            | <u>(315 074)</u>          |
| Cash flows used for investment activities:                        | <u>(331 928)</u>          | <u>(652 366)</u>          |
| <b>INCREASE IN CASH ON HAND</b>                                   | 900 293                   | 1 226 989                 |
| <b>CASH ON HAND, BEGINNING OF YEAR</b>                            | <u>5 136 101</u>          | <u>3 909 112</u>          |
| <b>CASH ON HAND, END OF YEAR</b>                                  | <u><u>\$6 036 394</u></u> | <u><u>\$5 136 101</u></u> |

The notes are an integral part of these financial statements.

## INSTITUT DE LA STATISTIQUE DU QUÉBEC

### NOTES TO THE FINANCIAL STATEMENTS March 31, 2005

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#### 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). Its purpose is to supply reliable, objective statistical information on the situation in Québec regarding all aspects of Québec society for which such information is relevant.

#### 2. ACCOUNTING POLICIES

The Institut's financial policies were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Work in progress

Work in progress is assessed according to the headway that has been made.

##### Inventories

Publication inventories are evaluated at the lower of cost or market method.

##### Fixed assets

Fixed assets are recorded at acquisition cost and are depreciated over their service lives according to the straight-line method and at the following rates:

|                           | Rate    |
|---------------------------|---------|
| Leasehold improvements    | 10%     |
| Furniture                 | 20%     |
| Equipment                 | 33 1/3% |
| Data processing equipment | 33 1/3% |
| Telephone system          | 33 1/3% |

##### Intangible assets

Intangible assets, comprising computer and software 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             | 33 1/3% |

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

##### Subsidy recording

The Gouvernement du Québec subsidy for the acquisition of fixed assets is recorded as a deferred subsidy and entered under operations using the same method and amortization rates as subsidized intangible assets.

## INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. FIXED ASSETS**

|                           | 2005               |                          | 2004             |
|---------------------------|--------------------|--------------------------|------------------|
|                           | Cost               | Accumulated depreciation | Net              |
| Leasehold improvements    | \$556 503          | \$227 532                | \$328 971        |
| Furniture                 | 346 076            | 274 210                  | 71 866           |
| Equipment                 | 40 379             | 36 921                   | 3 458            |
| Data processing equipment | 1 273 045          | 798 860                  | 474 185          |
| Telephone system          | 236 822            | 235 468                  | 1 354            |
|                           | <u>\$2 452 825</u> | <u>\$1 572 991</u>       | <u>\$879 834</u> |

**4. INTANGIBLE ASSETS**

|                      | 2005               |                          | 2004               |
|----------------------|--------------------|--------------------------|--------------------|
|                      | Cost               | Accumulated depreciation | Net                |
| Computer development | \$5 255 564        | \$2 161 640              | \$3 093 924        |
| Software             | 77 981             | 62 133                   | 15 848             |
|                      | <u>\$5 333 545</u> | <u>\$2 223 773</u>       | <u>\$3 109 772</u> |

**5. 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, 2008. At March 31, 2005, no advance had been contracted.

**6. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Retirement Plan for Senior Officials (RPSO), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Institut's contributions charged to the year-end statement amount to \$559 756 (2004: \$508 696). The Institut's liability towards the Government plans is restricted to its contributions as an employer.

**Provision for sick leave**

|                               | 2005               | 2004               |
|-------------------------------|--------------------|--------------------|
| Opening balance               | \$3 170 321        | \$2 953 105        |
| Charge for the year           | 735 075            | 727 465            |
| Benefits paid during the year | <u>(554 529)</u>   | <u>(510 249)</u>   |
| Closing balance               | <u>\$3 350 867</u> | <u>\$3 170 321</u> |

**INSTITUT DE LA STATISTIQUE DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**7. FINANCIAL INSTRUMENTS**

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

**8. RELATED PARTY TRANSACTIONS**

|                                       | 2005        | 2004        |
|---------------------------------------|-------------|-------------|
| Services rendered                     | \$6 561 893 | \$5 725 921 |
| Accounts receivable                   | 1 481 039   | 1 268 809   |
| Work under way                        | 360 033     | 62 202      |
| Prepaid expenses                      | 136 974     |             |
| Accounts payable and accruals         | 42 577      | 90 184      |
| Clients advances on service contracts | 1 205 670   | 490 040     |
| Deferred revenue                      | 3 446 682   | 2 980 708   |

In addition to the related party transactions disclosed in its financial statements and recorded 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 either joint control or significant influence by it. The Institut 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.

**9. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**INSTITUT DE LA STATISTIQUE DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Institut de la statistique du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Yvon Fortin  
Director General of the Institut de la statistique du Québec

Québec, May 31, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Institut de la statistique du Québec as at March 31, 2005 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at March 31, 2005 and the results of its operations and its cash flows 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 General of Québec

Québec, May 31, 2005

**INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**  
(R.S.Q., c. I-13.02)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended June 30, 2004

|                                                             | 2004               | 2003              |
|-------------------------------------------------------------|--------------------|-------------------|
| <b>REVENUE</b>                                              |                    |                   |
| Gouvernement du Québec subsidy (Note 3)                     | \$18 081 569       | \$16 616 638      |
| Retraining, vocational upgrading and<br>customized training | 848 112            | 805 018           |
| Regular instruction                                         | 398 965            | 374 577           |
| Food services (Note 4)                                      | 555 057            | 1 562 771         |
| Lodging (Note 4)                                            |                    | 1 054 724         |
| Interest on investments                                     | 211 768            | 209 698           |
| Professional services                                       | 615 065            | 1 333 107         |
| Other revenue                                               | 414 833            | 477 288           |
|                                                             | <u>21 125 369</u>  | <u>22 433 821</u> |
| <b>EXPENDITURE</b>                                          |                    |                   |
| Salaries and fringe benefits                                | 11 998 779         | 12 957 081        |
| Education and administrative supplies                       | 1 710 386          | 2 201 299         |
| Maintenance, repairs and public services                    | 1 388 337          | 1 162 022         |
| Ancillary services                                          | 1 422 641          | 1 416 218         |
| Financial expenses                                          | 22 276             | 48 245            |
| Property and other taxes                                    | 952 219            | 1 046 633         |
| Instructors, lecturers and student assistance               | 714 689            | 1 555 256         |
| Communications and travelling                               | 384 655            | 502 952           |
| Loss on write-off of fixed assets                           | 29 631             | 122 200           |
| Other administrative expenses                               | 198 055            | 277 252           |
| Depreciation of fixed assets                                | 1 800 109          | 1 181 248         |
|                                                             | <u>20 621 777</u>  | <u>22 470 406</u> |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                      | 503 592            | (36 585)          |
| <b>SURPLUS, BEGINNING OF YEAR</b>                           | <u>655 779</u>     | <u>692 364</u>    |
| <b>SURPLUS, END OF YEAR (Note 5)</b>                        | <u>\$1 159 371</u> | <u>\$655 779</u>  |

## INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

BALANCE SHEET  
as at June 30, 2004

|                                                    | 2004                | 2003                |
|----------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                      |                     |                     |
| <b>Current assets</b>                              |                     |                     |
| Cash on hand                                       | \$79 756            |                     |
| Short-term investments (Note 6)                    | 8 953 227           | \$2 233 788         |
| Accounts receivable and accrued interest (Note 7)  | 448 938             | 636 673             |
| Inventory (Note 8)                                 | 217 003             | 263 086             |
| Prepaid expenses                                   | 536 607             | 594 763             |
| Gouvernement du Québec subsidy receivable          |                     | 9 550               |
|                                                    | <u>10 235 531</u>   | <u>3 737 860</u>    |
| <b>Gouvernement du Québec subsidy receivable</b>   | 20 414 835          | 2 959 248           |
| <b>Portfolio investments, at cost</b> (Note 9)     | 1 070 431           | 1 076 917           |
| <b>Fixed assets</b> (Note 10)                      | <u>28 144 178</u>   | <u>11 923 143</u>   |
|                                                    | <u>\$59 864 975</u> | <u>\$19 697 168</u> |
| <b>LIABILITIES</b>                                 |                     |                     |
| <b>Current liabilities</b>                         |                     |                     |
| Bank overdraft                                     |                     | \$33 239            |
| Accounts payable and accruals                      | \$2 224 045         | 2 187 656           |
| Prepaid subsidies (Note 3)                         | 6 315 013           | 510 967             |
| Accrued expenses related to fixed assets (Note 10) | 20 414 835          | 2 959 248           |
|                                                    | <u>28 953 893</u>   | <u>5 691 110</u>    |
| <b>Deferred contributions</b> (Note 11)            | 27 593 279          | 11 224 068          |
| <b>Provision for sick leave</b> (Note 13)          | <u>1 506 705</u>    | <u>1 474 484</u>    |
|                                                    | <u>58 053 877</u>   | <u>18 389 662</u>   |
| <b>EQUITY</b>                                      |                     |                     |
| Gouvernement du Québec contribution                | 651 727             | 651 727             |
| Surplus (Note 5)                                   | <u>1 159 371</u>    | <u>655 779</u>      |
|                                                    | <u>1 811 098</u>    | <u>1 307 506</u>    |
|                                                    | <u>\$59 864 975</u> | <u>\$19 697 168</u> |

On behalf of the Board of Directors,  
Raymond Larivée, President  
Robert Gagnon, Vice-President and President of the Audit Committee

## INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

## CASH FLOWS

for the year ended June 30, 2004

|                                                                                         | 2004        | 2003        |
|-----------------------------------------------------------------------------------------|-------------|-------------|
| <b>OPERATING ACTIVITIES</b>                                                             |             |             |
| Excess revenue over expenditure                                                         | \$503 592   | \$(36 585)  |
| Adjustments for:                                                                        |             |             |
| Loss on write-off of fixed assets                                                       | 29 631      | 122 200     |
| Amortization of fixed assets                                                            | 1 800 109   | 1 181 248   |
| Amortization of deferred contributions                                                  | (1 596 528) | (1 016 578) |
| Amortization of premiums on purchase of investments                                     | 8 141       | 8 357       |
| Change in the provision for sick leave                                                  | 32 220      | 190 584     |
|                                                                                         | 777 165     | 449 226     |
| Change in non-cash items related to operations:                                         |             |             |
| Decrease in accounts receivable and accrued interest                                    | 187 735     | 286 498     |
| Decrease in inventory                                                                   | 46 083      | 4 357       |
| Decrease in prepaid expenses                                                            | 58 156      | 54 768      |
| Variation in Gouvernement du Québec subsidies receivable<br>and/or collected in advance | 5 813 596   | (5 066 826) |
| Increase (decrease) in accounts payable and accruals                                    | 36 389      | (254 630)   |
| Increase in deferred contributions (Note 17)                                            | 510 152     | 79 739      |
|                                                                                         | 6 652 111   | (4 896 094) |
| Cash flows provided by (used for) operating activities                                  | 7 429 276   | (4 446 868) |
| <b>INVESTMENT ACTIVITIES</b>                                                            |             |             |
| Acquisition of fixed assets (Note 17)                                                   | (595 187)   | (240 494)   |
| Acquisition (sale) of long-term investments                                             | (1 655)     | 198 819     |
| Cash flows used for investment activities                                               | (596 842)   | (41 675)    |
| <b>INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                             | 6 832 434   | (4 488 543) |
| <b>CASH AND CASH EQUIVALENT, BEGINNING<br/>OF YEAR</b>                                  | 2 200 549   | 6 689 092   |
| <b>CASH AND CASH EQUIVALENTS, END OF<br/>YEAR (Note 14)</b>                             | \$9 032 983 | \$2 200 549 |



## INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS June 30, 2004

#### 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 to 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, is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Institut were prepared by management on the accrual basis in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

##### Gouvernement du Québec subsidy receivable

Subsidies receivable for fixed assets are recorded in the fiscal year in which the Institut obtained the funding entitling it to these subsidies or in which the work was done.

##### Fixed assets

Fixed assets are recorded at cost and depreciated over their estimated service life according to the straight-line method at the following annual rates:

|                                          |     |
|------------------------------------------|-----|
| Building                                 | 4%  |
| Permanent leasehold improvements         | 10% |
| Kitchen equipment and technical material | 10% |
| Computer equipment and software          | 20% |
| Rolling stock                            | 25% |

##### Deferred contributions

Contributions for the acquisition of fixed assets that can be amortized are deferred and transferred to revenues using the same method and rates as those used to amortize the fixed assets to which they correspond.

##### Investments

Short-term investments are recorded at the lesser of cost or market value. Portfolio investments are recorded at cost.

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

## INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004**3. GOUVERNEMENT DU QUÉBEC SUBSIDY**

|                                                | 2004                | 2003                |
|------------------------------------------------|---------------------|---------------------|
| Received                                       | \$22 835 989        | \$10 640 173        |
| Receivable at the end of the fiscal year       |                     |                     |
| Operations                                     |                     | 9 550               |
| Fixed assets                                   | 20 414 835          | 2 959 248           |
| Deferred from the previous year                |                     |                     |
| Prepaid subsidies                              |                     |                     |
| Operations                                     |                     | 5 406 550           |
| Fixed assets                                   | 510 967             | 442 816             |
| Deferred contributions                         | 11 102 768          | 9 053 159           |
|                                                | <u>54 864 559</u>   | <u>28 511 496</u>   |
| Receivable at the beginning of the fiscal year |                     |                     |
| Operations                                     | 9 550               | 281 123             |
| Fixed assets                                   | 2 959 248           |                     |
| Deferred to the following year                 |                     |                     |
| Prepaid subsidies                              |                     |                     |
| Operations                                     | 5 767 300           |                     |
| Fixed assets                                   | 547 713             | 510 967             |
| Deferred contributions                         |                     |                     |
| Fixed assets                                   | 27 499 179          | 11 102 768          |
|                                                | <u>36 782 990</u>   | <u>11 894 858</u>   |
|                                                | <u>\$18 081 569</u> | <u>\$16 616 638</u> |

**4. RESTAURANT AND ACCOMMODATION SERVICES**

The Hotel's commercial activities were interrupted as of May 1, 2003 due to requalification work. These activities should start up again in fall 2004.

**5. SURPLUS**

The surplus cumulated at June 30, 2004 of approximately \$158 269, is due to the anticipated taking of annual vacations by employees during requalification work. Another \$550 898 was posted to financing amortizable fixed assets that were not financed by the deferred contributions. The amortization costs related to these fixed assets will be posted to future fiscal years. Finally, another portion of this surplus will be used to finance fixed assets required for activities to start up again after the requalification work.

**6. SHORT-TERM INVESTMENTS**

Short-term investments, comprising bonds and deposits that are cashable any time maturing between July 2004 and April 2005, bear interest at fixed rates varying between 2.65% et and 10%. The variation in short-term investment is due to the change in the subsidy payment schedule for the preceding year.

The Institut received \$40 000 from a foundation to administer a bursary program reserved for student training sessions. At June 30, 2004, \$67 059 was included under short-term investments. This amount was composed of capital and interest income. At June 30, 2004, a \$2 000 bursary had been paid.

**INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**7. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST**

|                                                              | 2004             | 2003             |
|--------------------------------------------------------------|------------------|------------------|
| Tax receivable                                               | \$68 104         | \$16 857         |
| Retraining, vocational upgrading and<br>customized education | 91 506           | 301 248          |
| Lodging and food services                                    |                  | 22 751           |
| Accrued interest on investments                              | 130 946          | 52 081           |
| Fondation de l'ITHQ                                          | 75 187           |                  |
| Other                                                        | 83 195           | 243 736          |
|                                                              | <u>\$448 938</u> | <u>\$636 673</u> |

**8. INVENTORY**

|                                | 2004             | 2003             |
|--------------------------------|------------------|------------------|
| Small equipment                | \$43 311         | \$46 322         |
| Food and beverages             | 54 894           | 116 787          |
| Maintenance supplies and tools | 118 798          | 99 977           |
|                                | <u>\$217 003</u> | <u>\$263 086</u> |

**9. PORTFOLIO INVESTMENTS**

Investments, comprising bonds maturing between 2006 and 2012, bear interest at rates varying between 3.6% and 6.5%. These amounts of money are reserved for financing the provisions for employee sick leave.

**10. FIXED ASSETS**

|                                               | 2004                |                             | 2003                |                     |
|-----------------------------------------------|---------------------|-----------------------------|---------------------|---------------------|
|                                               | Cost                | Accumulated<br>Depreciation | Net                 | Net                 |
| Land                                          | \$795 900           |                             | \$795 900           | \$795 900           |
| Buildings *                                   | 19 579 533          | \$5 992 835                 | 13 586 698          | 6 935 384           |
| Permanent leasehold improvements *            | 12 451 006          | 3 308 042                   | 9 142 964           | 2 763 257           |
| Kitchen equipment and technical<br>material * | 5 782 560           | 1 718 778                   | 4 063 782           | 1 192 906           |
| Computer equipment and software               | 1 206 824           | 651 990                     | 554 834             | 232 418             |
| Rolling stock                                 | 26 229              | 26 229                      |                     | 3 278               |
|                                               | <u>\$39 842 052</u> | <u>\$11 697 874</u>         | <u>\$28 144 178</u> | <u>\$11 923 143</u> |

\* Fixed assets include unamortized projects under way for \$12 166 905.

On May 29, 2002, the Gouvernement du Québec authorized the Institut to carry out a \$36 000 000 project to requalify its building. This amount was increased by order-in-council to \$39 000 000 in December 2003. This project will be funded from a borrowing used to repay the cost of the construction management work done by the Société immobilière du Québec. The cost of the work in progress, not yet invoiced but performed by the Société immobilière du Québec at June 30, 2004, was recorded to liabilities in the amount of \$20 414 835 (2003: \$2 959 248).

## INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**11. DEFERRED CONTRIBUTIONS**

Deferred contributions include the non-amortized portion of the contributions received for fixed assets in the form of subsidies from the Gouvernement du Québec or other agencies.

|                                           | <u>2004</u>                | <u>2003</u>                |
|-------------------------------------------|----------------------------|----------------------------|
| <b>Gouvernement du Québec</b>             |                            |                            |
| Opening balance                           | \$11 102 768               | \$9 053 159                |
| Gouvernement du Québec subsidy            | 17 965 739                 | 3 038 987                  |
| Amortization of the deferred contribution | <u>(1 569 328)</u>         | <u>(989 378)</u>           |
| Closing balance                           | <u>27 499 179</u>          | <u>11 102 768</u>          |
| <b>Other</b>                              |                            |                            |
| Opening balance                           | 121 300                    | 148 500                    |
| Amortization of the deferred contribution | <u>(27 200)</u>            | <u>(27 200)</u>            |
| Closing balance                           | <u>94 100</u>              | <u>121 300</u>             |
|                                           | <u><u>\$27 593 279</u></u> | <u><u>\$11 224 068</u></u> |

**12. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded 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 either joint control or significant influence by it. The Institut 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.

**13. FRINGE BENEFITS****Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Teachers Pension Plan (TPP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Institut's contributions charged to the year amount to \$384 330 (2003: \$393 506). The Institut's liability towards these Government plans is restricted to its contributions as an employer.

**INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**June 30, 2004**
**13. FRINGE BENEFITS (cont'd)**

|                                      | 2004               | 2003               |
|--------------------------------------|--------------------|--------------------|
| <b>Provision for sick leave</b>      |                    |                    |
| Opening balance                      | \$1 474 484        | \$1 283 900        |
| Charge for the year                  | 480 247            | 732 813            |
| Benefits paid during the year        | (448 026)          | (542 229)          |
| Closing balance                      | 1 506 705          | 1 474 484          |
| <b>Provision for vacation time *</b> |                    |                    |
| Opening balance                      | 1 205 185          | 1 017 967          |
| Change for the year                  | (158 269)          | 187 218            |
| Closing balance                      | 1 046 916          | 1 205 185          |
|                                      | <u>\$2 553 621</u> | <u>\$2 679 669</u> |

\* Included in the item "Accounts payable and accruals".

**14. CASH FLOWS**

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

|                               | 2004               | 2003               |
|-------------------------------|--------------------|--------------------|
| Cash on hand (bank overdraft) | \$79 756           | \$(33 239)         |
| Short-term investments        | 8 953 227          | 2 233 788          |
|                               | <u>\$9 032 983</u> | <u>\$2 200 549</u> |

**15. FINANCIAL INSTRUMENTS**

The fair market value of short-term investments is \$8 953 227 (2003: \$2 233 788). The fair value of the other short-term financial instruments is equal to their book value given that they mature in the near future.

The fair value of portfolio investments is \$1 100 382 (2003: \$1 142 890). The fair value of the Gouvernement du Québec subsidy receivable and accrued expenses related to fixed assets cannot be estimated given the lack of a market for this type of instrument.

**16. FONDATION DE L'INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**

On February 3, 2003, the Fondation de l'Institut de tourisme et d'hôtellerie du Québec was made into a non-profit organization. The purpose of this Fondation is to provide financial support to the Institut de tourisme et d'hôtellerie du Québec in carrying out its mission.

To help the Fondation fulfil its mandate, the Institut de tourisme et d'hôtellerie du Québec provides two rooms for offices and all services required for efficient operations (furnishings, telephones, computers and printer, photocopies, website access and mailing fees). The Institut also gives the Fondation access to the premises required to hold the special events it organizes.

**INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**16. FONDATION DE L'INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC (cont'd)**

In fiscal 2003-2004, the Institut concluded transactions in the normal course of its operations with the Fondation. At June 30, 2004, the Fondation held \$75 000 in the form of liquid assets belonging to the Institut. The Fondation committed to repaying these amounts before the end of fiscal 2004-2005.

**17. ADDITIONAL CASH FLOW INFORMATION**

|                                                                                | <u>2004</u>   | <u>2003</u>  |
|--------------------------------------------------------------------------------|---------------|--------------|
| <b>Operations not affecting the treasury, related to investment activities</b> |               |              |
| Purchase of fixed assets financed from account payable                         | 17 455 587 \$ | 2 959 248 \$ |
| Increase in deferred contributions related to the purchase of fixed assets     | 17 455 587    | 2 959 248    |

**18. COMPARATIVE FIGURES**

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

**INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Institut de tourisme et d'hôtellerie were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 audit committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Institut's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Lucille Daoust  
Director General

Julien Girard, CGA, MAP  
Head of Financial Resources  
and Procurement

Montréal, September 3, 2004

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Institut de tourisme et d'hôtellerie du Québec as at June 30, 2004 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at June 30, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, September 3, 2004

**INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**  
(R.S.Q., c. I-13.1.1)

INCOME  
for the year ended March 31, 2005

|                                                                                                                      | 2005                  |                     |                    | 2004                  |                     |                   |
|----------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------|--------------------|-----------------------|---------------------|-------------------|
|                                                                                                                      | Regular<br>activities | Special<br>projects | Total              | Regular<br>activities | Special<br>projects | Total             |
| <b>REVENUE</b>                                                                                                       |                       |                     |                    |                       |                     |                   |
| Gouvernement du Québec subsidies                                                                                     | \$25 106 700          | \$11 901 616        | \$37 008 316       | \$23 387 744          | \$6 745 376         | \$30 133 120      |
| Government of Canada subsidies                                                                                       |                       | 1 139 414           | 1 139 414          |                       | 578 800             | 578 800           |
| Sales of services                                                                                                    | 611 345               | 1 363 605           | 1 974 950          | 739 471               | 2 082 312           | 2 821 783         |
| Other revenue                                                                                                        | 52 431                | 868 781             | 921 212            | 44 584                | 1 069 233           | 1 113 817         |
| Amortization of deferred contributions                                                                               | 188 945               | 767 263             | 956 208            | 284 155               | 658 514             | 942 669           |
| Special Gouvernement du Québec contribution (Note 4)                                                                 | 346 527               |                     | 346 527            |                       |                     |                   |
| Interest                                                                                                             | 23 829                | 214 462             | 238 291            | 230 815               |                     | 230 815           |
|                                                                                                                      | <u>26 329 777</u>     | <u>16 255 141</u>   | <u>42 584 918</u>  | <u>24 686 769</u>     | <u>11 134 235</u>   | <u>35 821 004</u> |
| <b>EXPENDITURE</b>                                                                                                   |                       |                     |                    |                       |                     |                   |
| Salaries and fringe benefits                                                                                         | 15 212 564            | 6 149 161           | 21 361 725         | 13 160 980            | 4 927 581           | 18 088 561        |
| Professional and administrative services                                                                             | 755 146               | 3 277 102           | 4 032 248          | 916 034               | 2 145 937           | 3 061 971         |
| Medical and laboratory supplies                                                                                      | 1 494 532             | 2 196 777           | 3 691 309          | 1 343 304             | 2 000 423           | 3 343 727         |
| Premises                                                                                                             | 3 525 426             | 1 551               | 3 526 977          | 2 878 567             | 280                 | 2 878 847         |
| Amortization of fixed assets                                                                                         | 1 507 748             | 767 263             | 2 275 011          | 1 321 681             | 554 809             | 1 876 490         |
| Travel expenses                                                                                                      | 442 636               | 708 990             | 1 151 626          | 452 892               | 313 757             | 766 649           |
| Contribution to operating expenses of the national public health component of the health and social services network | 1 469 980             |                     | 1 469 980          | 2 854 731             |                     | 2 854 731         |
| Interest on long-term debt                                                                                           | 620 147               |                     | 620 147            | 581 939               |                     | 581 939           |
| Office expenses                                                                                                      | 317 030               | 141 333             | 458 363            | 359 901               | 86 100              | 446 001           |
| Stationery and printing                                                                                              | 112 557               | 288 826             | 401 383            | 95 507                | 358 582             | 454 089           |
| Committee operation expenses                                                                                         | 31 860                | 20 794              | 52 654             | 23 492                | 27 155              | 50 647            |
| Maintenance and repairs                                                                                              | 264 053               | 48 255              | 312 308            | 330 509               | 82 293              | 412 802           |
| Congress organization costs                                                                                          | 5 211                 | 268 586             | 273 797            | 5 179                 | 199 193             | 204 372           |
| Training                                                                                                             | 227 384               | 45 817              | 273 201            | 109 473               | 33 041              | 142 514           |
| Telecommunications                                                                                                   | 249 830               | 11 181              | 261 011            | 268 720               | 7 836               | 276 556           |
| Documentation                                                                                                        | 110 486               | 13 877              | 124 363            | 133 455               | 5 930               | 139 385           |
| Automotive equipment                                                                                                 | 59 353                | 28 925              | 88 278             | 63 937                | 38 903              | 102 840           |
| Equipment rental                                                                                                     | 60 185                | 15 843              | 76 028             | 53 078                | 38 148              | 91 226            |
| Insurance                                                                                                            | 14 417                | 24 000              | 38 417             | 12 625                | 19 363              | 31 988            |
| Bank charges                                                                                                         | 10 881                |                     | 10 881             | 11 320                | 153                 | 11 473            |
| General expenses (Note 5)                                                                                            | (453 700)             | 453 700             |                    | (294 751)             | 294 751             |                   |
|                                                                                                                      | <u>26 037 726</u>     | <u>14 461 981</u>   | <u>40 499 707</u>  | <u>24 682 573</u>     | <u>11 134 235</u>   | <u>35 816 808</u> |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                                                               | <u>\$292 051</u>      | <u>\$1 793 160</u>  | <u>\$2 085 211</u> | <u>\$4 196</u>        |                     | <u>\$4 196</u>    |

The notes are an integral part of the financial statements.



## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

## SURPLUS

for the year ended March 31, 2005

|                                                                                            | 2005               | 2004             |
|--------------------------------------------------------------------------------------------|--------------------|------------------|
| <b>UNAPPROPRIATED SURPLUS</b>                                                              |                    |                  |
| Opening balance                                                                            | \$302 077          | \$297 881        |
| Unappropriated surplus from proceeds on charges and regular activities for the fiscal year | 322 055            | 4 196            |
| Transfer to the surplus for the acquisition of fixed assets                                | (235 637)          |                  |
| Closing balance                                                                            | <u>\$388 495</u>   | <u>\$302 077</u> |
| <br><b>APPROPRIATED SURPLUS (Note 3)</b>                                                   |                    |                  |
| <b>Appropriated surplus attributable to regular activities</b>                             |                    |                  |
| Opening balance                                                                            |                    |                  |
| Transfer of appropriated surplus                                                           | \$235 637          |                  |
| Charge for the fiscal year related to appropriated surplus                                 | (30 004)           |                  |
| Closing balance                                                                            | <u>205 633</u>     |                  |
| <b>Appropriated surplus attributable to special projects</b>                               |                    |                  |
| Opening balance                                                                            |                    |                  |
| Surplus of proceeds over project costs for the fiscal year                                 | 1 793 160          |                  |
| Closing balance                                                                            | <u>1 793 160</u>   |                  |
| <b>TOTAL APPROPRIATED SURPLUS</b>                                                          | <u>\$1 998 793</u> |                  |

The notes are an integral part of the financial statements.

## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                                | 2005                | 2004                |
|----------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                  |                     |                     |
| <b>Current assets</b>                                          |                     |                     |
| Cash on hand                                                   | \$12 303 051        | \$7 337 357         |
| Accounts receivable (Note 6)                                   | 963 007             | 668 849             |
| Subsidies receivable (Note 7)                                  | 14 829 547          | 9 939 904           |
| Long-term receivable (Note 8)                                  | 74 787              | 107 627             |
| Prepaid expenses                                               | 524 147             | 424 506             |
| Supply stock - at cost                                         | 137 673             | 145 908             |
|                                                                | <u>28 832 212</u>   | <u>18 624 151</u>   |
| <b>Subsidies receivable</b> (Note 7)                           | 441 100             | 980 016             |
| <b>Long-term receivable</b> (Note 8)                           | 159 247             | 352 034             |
| <b>Fixed assets</b> (Note 9)                                   | <u>15 180 417</u>   | <u>15 614 361</u>   |
|                                                                | <u>\$44 612 976</u> | <u>\$35 570 562</u> |
| <b>LIABILITIES</b>                                             |                     |                     |
| <b>Current liabilities</b>                                     |                     |                     |
| Accounts payable and accruals (Note 10)                        | \$6 243 298         | \$4 087 847         |
| Long-term debt maturing in the coming<br>fiscal year (Note 11) | <u>2 584 558</u>    | <u>2 340 836</u>    |
|                                                                | 8 827 856           | 6 428 683           |
| <b>Deferred proceeds</b>                                       | 20 391 416          | 15 366 222          |
| <b>Long-term debt</b> (Note 11)                                | 8 861 593           | 9 394 071           |
| <b>Provision for sick leave</b> (Note 13)                      | 598 673             | 540 307             |
| <b>Deferred contributions</b>                                  | <u>3 546 150</u>    | <u>3 539 202</u>    |
|                                                                | <u>42 225 688</u>   | <u>35 268 485</u>   |
| <b>SURPLUS</b>                                                 |                     |                     |
| Unappropriated surplus                                         | 388 495             | 302 077             |
| Appropriated surplus                                           | <u>1 998 793</u>    | <u></u>             |
|                                                                | <u>2 387 288</u>    | <u>302 077</u>      |
|                                                                | <u>\$44 612 976</u> | <u>\$35 570 562</u> |

The notes are an integral part of the financial statements.

Richard Massé  
Nicolas Steinmetz

## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

## CASH FLOWS

for the year ended March 31, 2005

|                                                                | 2005         | 2004        |
|----------------------------------------------------------------|--------------|-------------|
| <b>OPERATING ACTIVITIES</b>                                    |              |             |
| Excess of revenue over expenditure                             | \$2 085 211  | \$4 196     |
| Adjustments for:                                               |              |             |
| Amortization of fixed assets                                   | 2 275 011    | 1 876 490   |
| Amortization of deferred contributions                         | (956 208)    | (942 669)   |
| Gain on disposal of fixed assets                               | (11 000)     |             |
|                                                                | 3 393 014    | 938 017     |
| Change in non-cash elements related to operations              |              |             |
| Change in accounts receivable                                  | (294 158)    | 435 786     |
| Increase in prepaid expenses                                   | (99 642)     | (382 809)   |
| Decrease (increase) in supply stocks                           | 8 235        | (15 066)    |
| Increase in subsidies receivable                               | (4 350 727)  | (4 419 257) |
| Increase (decrease) in accounts payable and accruals (Note 10) | 2 123 431    | (452 681)   |
| Increase in provision for sick leave                           | 58 366       | 5 716       |
| Increase in deferred proceeds                                  | 5 025 194    | 6 792 110   |
|                                                                | 2 470 699    | 1 963 799   |
| Cash flows provided by operating activities                    | 5 863 713    | 2 901 816   |
| <b>INVESTMENT ACTIVITIES</b>                                   |              |             |
| Acquisition of fixed assets (Note 9)                           | (1 809 046)  | (2 218 122) |
| Proceeds from disposal of fixed assets                         | 11 000       |             |
| Long-term receivable                                           | 225 627      | 100 827     |
| Cash flows used for investment activities                      | (1 572 419)  | (2 117 295) |
| <b>FINANCING ACTIVITIES</b>                                    |              |             |
| Repayment of the long-term debt                                | (923 756)    | (745 973)   |
| Long-term debt                                                 | 635 000      |             |
| Deferred contributions                                         | 963 156      | 1 425 944   |
| Cash flows provided by financing activities                    | 674 400      | 679 971     |
| <b>INCREASE OF CASH ON HAND</b>                                | 4 965 694    | 1 464 492   |
| <b>CASH ON HAND, BEGINNING OF YEAR</b>                         | 7 337 357    | 5 872 865   |
| <b>CASH ON HAND, END OF YEAR</b>                               | \$12 303 051 | \$7 337 357 |
| <b>ADDITIONAL INFORMATION</b>                                  |              |             |
| Interest paid                                                  | \$620 148    | \$581 939   |

The notes are an integral part of the financial statements.

## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

### NOTES TO THE FINANCIAL STATEMENTS March 31, 2005

---

#### 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. Its mission is to support the Minister of Health and Social Services and the boards for developing the local health and social services networks set up under the Act respecting health services and social services (R.S.Q., c. S-4.2) in carrying out their public health mandate.

#### 2. ACCOUNTING POLICIES

The financial statements of the Institut were prepared by management in accordance with the auditing principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Fixed assets

Fixed assets are recorded at cost and depreciated over their service lives on a straight-line basis at the following rates:

|                           |                                 |
|---------------------------|---------------------------------|
| Specialized equipment     | 10 to 20%                       |
| Computer equipment        | 20 to 33 1/3%                   |
| Automotive equipment      | 10 to 20%                       |
| Furnishings and equipment | 20                              |
| Leasehold improvements    | Remainder of lease, maximum 20% |

Major fit-ups are amortized over a maximum of 15 years using the annuity method (growing endowment) at the corresponding debt rate.

##### Recording proceeds

Proceeds related to special projects are recorded to results based on the posting of the related charges. Certain subsidies receivable are conditional on approval of the funds by the government.

Deferred proceeds comprise the amounts received and receivable for services not rendered in keeping with contractual agreements.

##### Deferred contributions

Contributions received for acquisition or in the form of amortizable fixed assets are deferred and transferred to proceeds using the same method and rates as those used to amortize the fixed assets to which they refer.

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 3. APPROPRIATED SURPLUS

The appropriated surplus comprises the appropriated surplus attributable to regular activities and the appropriated surplus attributable to special projects.

For the appropriated surplus attributable to regular activities, the Institut used a portion of its unappropriated surplus to acquire fixed assets following Ministère de la Santé et des Services sociaux du Québec authorization.

Moreover, the Institut's board of directors decided to assign the appropriated surplus attributable to special projects to the Institut's development, notably to supplement funding for fixed asset and infrastructure projects and specific projects directly related to its mission.

**INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. SPECIAL GOUVERNEMENT DU QUÉBEC CONTRIBUTION**

The Institut posts a provision for sick leave and vacation time payable to its employees and the related employer contributions. In order to repay the amounts reported as expenditures in past years, the Secrétariat du Conseil du trésor granted the Institut a special non-recurring contribution of \$346 527 in fiscal 2004-2005.

**5. GENERAL EXPENSES**

The general expenses charged to special projects and as recovery for regular activities represents an estimate of the value of the charges for support services offered in the context of the Institut's different special projects.

**6. ACCOUNTS RECEIVABLE**

|                        | 2005             | 2004             |
|------------------------|------------------|------------------|
| Gouvernement du Québec | \$251 969        | \$265 273        |
| Gouvernement du Canada |                  | 10 260           |
| Other                  | 711 038          | 393 316          |
|                        | <u>\$963 007</u> | <u>\$668 849</u> |

**7. SUBSIDIES RECEIVABLE**

|                                                  | 2005                | 2004               |
|--------------------------------------------------|---------------------|--------------------|
| Gouvernement du Québec                           | \$13 510 950        | \$9 099 800        |
| Gouvernement du Canada                           | 1 267 410           | 1 251 961          |
| Other                                            | 492 287             | 568 159            |
|                                                  | <u>15 270 647</u>   | <u>10 919 920</u>  |
| Less: portion maturing in the coming fiscal year |                     |                    |
| Gouvernement du Québec                           | (13 069 850)        | (8 425 260)        |
| Government of Canada                             | (1 267 410)         | (946 485)          |
| Other                                            | (492 287)           | (568 159)          |
|                                                  | <u>(14 829 547)</u> | <u>(9 939 904)</u> |
|                                                  | <u>\$441 100</u>    | <u>\$980 016</u>   |

**8. LONG-TERM RECEIVABLE**

Under a mandate conferred on it by the Ministère de la Santé et des Services sociaux du Québec for the acquisition and operation of a mobile mammogram breast cancer-detection unit, the Institut has a long-term receivable.

## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**8. LONG-TERM RECEIVABLE (cont'd)**

|                                                                                                                                                            | 2005             | 2004             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Long-term receivable, fixed rate of 4.17% (3.11% in 2004)<br>encashable by monthly payments of \$6 927 including<br>capital and interest, maturing in 2006 | \$234 034        | \$459 661        |
| Less: portion maturing in the coming fiscal year                                                                                                           | (74 787)         | (107 627)        |
|                                                                                                                                                            | <u>\$159 247</u> | <u>\$352 034</u> |

Amounts receivable over the next three fiscal years break down as follows based on the assumption that they will be renewed at the same conditions:

|      |                  |
|------|------------------|
| 2006 | \$74 787         |
| 2007 | 77 966           |
| 2008 | 81 281           |
|      | <u>\$234 034</u> |

**9. FIXED ASSETS**

|                           | 2005                |                          |                     | 2004                |
|---------------------------|---------------------|--------------------------|---------------------|---------------------|
|                           | Cost                | Accumulated depreciation | Net                 | Net                 |
| Major fit-up              | \$10 497 145        | \$1 103 073              | \$9 394 072         | \$9 896 276         |
| Specialized equipment     | 4 587 316           | 2 178 906                | 2 408 410           | 2 648 771           |
| Computer equipment        | 3 986 087           | 2 283 576                | 1 702 511           | 1 316 282           |
| Automotive equipment      | 984 722             | 335 237                  | 649 485             | 747 151             |
| Furnishings and equipment | 1 770 374           | 796 573                  | 973 801             | 943 729             |
| Leasehold improvements    | 189 586             | 137 448                  | 52 138              | 62 152              |
|                           | <u>\$22 015 230</u> | <u>\$6 834 813</u>       | <u>\$15 180 417</u> | <u>\$15 614 361</u> |

Acquisitions totalled \$1 841 065 (2004: \$6 073 697), of which \$1 644 276 (2004: \$1 721 142) was disbursed during the fiscal year. An amount of \$164 770 (2004: \$497 080) was disbursed during the year for acquisitions dating from the previous fiscal year.

**10. ACCOUNTS PAYABLE AND ACCRUALS**

|                        | 2005               | 2004               |
|------------------------|--------------------|--------------------|
| Gouvernement du Québec | \$2 116 592        | \$1 258 992        |
| Other                  | 4 126 706          | 2 828 855          |
|                        | <u>\$6 243 298</u> | <u>\$4 087 847</u> |

Accounts payable and accrued operating costs total \$6 046 508 (2004: \$3 923 077) and costs linked to the acquisition of fixed assets are \$196 790 (2004: \$164 770).

## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. LONG-TERM DEBT**

|                                                                                                                                                                                                       | <u>2005</u>                    | <u>2004</u>                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| Borrowings on notes                                                                                                                                                                                   |                                |                                |
| fixed rate of 4.17% (3.11% in 2004), guaranteed by the Ministère de la Santé et des services sociaux, repayable in monthly instalments of \$10 177 including principal and interest, maturing in 2006 | \$343 811                      | \$451 313                      |
| fixed rate of 3.88% (3.11% in 2004), repayable in monthly instalments of \$25 389 including principal and interest, maturing in 2006                                                                  | 1 127 008                      | 1 387 317                      |
| fixed rate of 3.65%, repayable in monthly instalments of \$8 578 including principal and interest, maturing in 2005.                                                                                  | 581 260                        |                                |
| Borrowings from the Société immobilière du Québec                                                                                                                                                     |                                |                                |
| fixed rate of 6.08%, repayable in monthly instalments of \$52 582 including principal and interest, maturing in 2018                                                                                  | 5 449 702                      | 5 739 709                      |
| fixed rate of 6.08%, repayable in monthly instalments of \$2 128 including principal and interest, maturing in 2008                                                                                   | 53 574                         | 75 137                         |
| fixed rate of 5.52%, repayable in monthly instalments of \$34 263 including principal and interest, maturing in 2019                                                                                  | <u>3 890 796</u><br>11 446 151 | <u>4 081 431</u><br>11 734 907 |
| Less: portion maturing in the coming fiscal year                                                                                                                                                      | <u>(2 584 558)</u>             | <u>(2 340 836)</u>             |
|                                                                                                                                                                                                       | <u>\$8 861 593</u>             | <u>\$9 394 071</u>             |

The amounts of principal to be paid on the long-term debt over the coming five years breaks down as follows:

|      |             |
|------|-------------|
| 2006 | \$2 584 558 |
| 2007 | 564 582     |
| 2008 | 579 079     |
| 2009 | 607 242     |
| 2010 | 643 806     |

**12. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at book 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 either joint control or significant influence by it. The Institut 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.

## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**13. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Institut participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Institut's contributions charged to the year-end statement amount to \$660 544 (2004: \$524 999). The Institut's liability towards the Government plans is restricted to its contributions as an employer.

**Provision for sick leave**

|                               | <u>2005</u>      | <u>2004</u>      |
|-------------------------------|------------------|------------------|
| Opening balance               | \$540 307        | \$534 591        |
| Charge for the year           | 407 394          | 453 038          |
| Benefits paid during the year | <u>(349 028)</u> | <u>(447 322)</u> |
|                               | <u>\$598 673</u> | <u>\$540 307</u> |

**14. FINANCIAL INSTRUMENTS****Long-term debt**

At March 31, 2005, the fair value of borrowings from the Société immobilière du Québec of \$9 394 072 was \$10 024 355, given the capitalization of cash flows at market rates for securities with similar terms and interest rates. The fair value of notes is equivalent to the book value, given the fact that they mature in the near future and that the interest rate has varied little since the inception of these debts.

**Other assets and liabilities**

The fair value of cash, receivables, subsidies receivable, long-term debts, payable and accrued expenses is equal to their book value, given that they mature in the near future or that their term is undetermined.

**15. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.



## INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

### MANAGEMENT'S REPORT

The financial statements of the Institut national de santé publique du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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.

The Auditor General of Québec has audited the Institut's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Richard Massé, M.D.  
President and Chief Executive Officer

Jean-Louis Coulombe, CMA  
Director of Financial and Material Resources

Québec, June 29, 2005

### 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, 2005 and the statements of income and surplus and cash flows for the year then ended. These financial statements are the responsibility of Institut management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at March 31, 2005 and the results of its operations and cash flows 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

For the Auditor General of Québec,  
Doris Paradis, FCA  
Assistant Auditor General

Québec, June 29, 2005

**INVESTISSEMENT QUÉBEC**  
(R.S.Q., c. I-16.1)

**CONSOLIDATED STATEMENT OF INCOME**  
for the fiscal year ended March 31,  
(in thousands of dollars)

|                                                                                   | 2005           | 2004           | 2003          |
|-----------------------------------------------------------------------------------|----------------|----------------|---------------|
| <b>INCOME FROM OPERATIONS</b>                                                     |                |                |               |
| Interest income and interest contribution<br>from the Québec government (Note 15) | 121 105        | 97 354         | 63 903        |
| Guarantee fees                                                                    | 14 636         | 12 525         | 11 360        |
| Risk premiums                                                                     |                |                |               |
| Stock options (Note 16)                                                           | 2 409          | 4 150          | 5 288         |
| Share-in-earnings and lump-sum premiums                                           | 3 814          | 3 055          | 2 412         |
| Commitment fees                                                                   | 6 613          | 7 666          | 7 722         |
| Other income (Note 17)                                                            | 27 091         | 5379           | 1 601         |
|                                                                                   | <u>175 668</u> | <u>130 129</u> | <u>92 286</u> |
| <b>EXPENSES FROM OPERATIONS</b>                                                   |                |                |               |
| Interest charges (Note 18)                                                        | 35 884         | 36 951         | 26 119        |
| Financial contribution (Note 19)                                                  | 52 633         | 56 137         | 79 634        |
| Financial contributions assumed by the Québec<br>government (Note 19)             | (31 665)       | (45 382)       | (77 271)      |
| Fees to financial intermediaries                                                  | 26 464         | 17 747         | 10 435        |
| Other expenses (Note 20)                                                          | 3 037          | 1 972          | 960           |
|                                                                                   | <u>86 353</u>  | <u>67 425</u>  | <u>39 877</u> |
| <b>OPERATING INCOME BEFORE PROVISION</b>                                          | <u>89 315</u>  | <u>62 704</u>  | <u>52 409</u> |
| <b>Provision</b>                                                                  |                |                |               |
| Provision for losses (Note 10)                                                    | 165 742        | 273 023        | 141 277       |
| Provision for losses recoverable from the Québec<br>government (Note 10)          | (146 542)      | (265 415)      | (125 450)     |
|                                                                                   | <u>19 200</u>  | <u>7 608</u>   | <u>15 827</u> |
| <b>OPERATING INCOME</b>                                                           | <u>70 115</u>  | <u>55 096</u>  | <u>36 582</u> |
| <b>Administrative expenses</b>                                                    |                |                |               |
| Administrative expenses (Note 21)                                                 | 40 225         | 40 589         | 41 523        |
| Administration fees – Québec government                                           | (21 946)       | (26 811)       | (27 585)      |
|                                                                                   | <u>18 279</u>  | <u>13 778</u>  | <u>13 938</u> |
| <b>NET INCOME</b>                                                                 | <u>51 836</u>  | <u>41 318</u>  | <u>22 644</u> |

The notes are an integral part of the financial statements.

**INVESTISSEMENT QUÉBEC**

**CONSOLIDATED STATEMENT OF SURPLUS**  
for the fiscal year ended March 31  
(in thousands of dollars)

|                                                                                          | <u>2005</u>       | <u>2004</u><br>(restated)<br>(Note 3) |
|------------------------------------------------------------------------------------------|-------------------|---------------------------------------|
| <b>SURPLUS AT THE BEGINNING</b>                                                          | 194 284           | 149 014                               |
| Net income                                                                               | <u>51 836</u>     | <u>41 318</u>                         |
| <b>SURPLUS AT THE END</b>                                                                | 246 120           | 190 332                               |
| Adjustment due to the change in the accounting policy<br>regarding stock option premiums | <u>          </u> | <u>3 952</u>                          |
| <b>RESTATED SURPLUS AT THE END</b>                                                       | <u>246 120</u>    | <u>194 284</u>                        |

The notes are an integral part of the financial statements.

**INVESTISSEMENT QUÉBEC****CONSOLIDATED BALANCE SHEET**

as at March 31,  
(in thousands of dollars)

|                                                                                           | 2005             | 2004<br>(restated)<br>(Note 3) |
|-------------------------------------------------------------------------------------------|------------------|--------------------------------|
| <b>ASSETS</b>                                                                             |                  |                                |
| Cash                                                                                      |                  | 2 469                          |
| Temporary investments (Note 4)                                                            | 9 588            | 4 990                          |
| Investments (Note 5)                                                                      | 1 731 246        | 1 038 376                      |
| Loans, less accumulated provision for losses (Notes 6 and 10)                             | 744 925          | 801 978                        |
| Shares, less accumulated provision for losses (Notes 7 and 10)                            | 333 011          | 342 722                        |
| Units, less accumulated provision for losses (Notes 8 and 10)                             | 2 744            | 21 276                         |
| Accumulated provision for losses recoverable from the Québec government (Note 10)         | 558 956          | 562 751                        |
| Other assets (Note 11)                                                                    | 136 861          | 78 806                         |
|                                                                                           | <u>3 517 331</u> | <u>2 853 368</u>               |
| <b>LIABILITIES AND EQUITY</b>                                                             |                  |                                |
| <b>LIABILITIES</b>                                                                        |                  |                                |
| Outstanding cheques less cash                                                             | 904              |                                |
| Short-term debt (Note 12)                                                                 | 235 900          | 370 900                        |
| Long-term debt (Note 13)                                                                  | 2 810 017        | 2 003 146                      |
| Due and accrued interest on loans from the Fonds de financement du gouvernement du Québec | 12 564           | 12 267                         |
| Accumulated provision for losses on guarantees (Notes 9 and 10)                           | 156 526          | 219 657                        |
| Other liabilities (Note 14)                                                               | 22 356           | 20 170                         |
|                                                                                           | <u>3 238 267</u> | <u>2 626 140</u>               |
| <b>EQUITY</b>                                                                             |                  |                                |
| Initial equity                                                                            | 32 944           | 32 944                         |
| Surplus                                                                                   | 246 120          | 194 284                        |
|                                                                                           | <u>279 064</u>   | <u>227 228</u>                 |
|                                                                                           | <u>3 517 331</u> | <u>2 853 368</u>               |
| <b>GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES (Notes 9 and 10)</b>                 | <u>1 570 655</u> | <u>1 260 404</u>               |

**FINANCING COMMITMENTS** (Note 27)

**OTHER COMMITMENTS** (Note 28)

**CONTINGENCIES** (Note 31)

The notes are an integral part of the financial statements.

For the Board of Directors,  
Jean Houde, Chairman of the Board  
Léopold Beaulieu, Director

# **INVESTISSEMENT QUÉBEC**

## **CONSOLIDATED STATEMENT OF CASH FLOWS** for the fiscal year ended March 31, (in thousands of dollars)

|                                                                                                                      | 2005      | 2004      | 2003      |
|----------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                          |           |           |           |
| Net income                                                                                                           | 51 836    | 41 318    | 22 644    |
| Adjustments for:                                                                                                     |           |           |           |
| Amortization of issuance expenses on long-term debt                                                                  | 713       | 460       | 199       |
| Amortization of discounts and premiums on long-term debt                                                             | (1 129)   | (1 109)   | (994)     |
| Amortization of discounts and premiums on investments                                                                | (52 712)  | (30 373)  | (15 112)  |
| Amortization of deferred fees to financial intermediaries                                                            | 16 969    | 9 876     | 4 275     |
| Gain on disposal of shares and units                                                                                 | (17 173)  | (508)     | (222)     |
| Gain on disposal of investments                                                                                      | (887)     | (504)     |           |
| Non-realized exchange loss                                                                                           | 629       |           |           |
| Non-realized loss resulting from changes in the fair value of stock options                                          | 25        |           |           |
| Transfer of deferred income                                                                                          |           | (192)     | (192)     |
| Provision for losses                                                                                                 | 165 742   | 273 023   | 141 277   |
| Provision for losses recoverable from the Québec government                                                          | (146 542) | (265 415) | (125 450) |
| Amortization of tangible assets and limited-life intangible assets                                                   | 859       | 1 921     | 2 218     |
| Loss on disposal of tangible assets and limited-life intangible assets                                               | 208       |           |           |
| Share of income – Affiliated company, Canadair Québec Capital S.E.N.C.                                               |           | 20        | 38        |
|                                                                                                                      | 18 538    | 28 517    | 28 681    |
| Changes in non-cash items related to operating activities (Note 22)                                                  | (51 843)  | (12 865)  | (27 217)  |
|                                                                                                                      | (33 305)  | 15 652    | 1 464     |
| <b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>                                                                         |           |           |           |
| Net decrease (increase) of temporary investments with a maturity of over three months following the acquisition date | (397)     | 69 083    | (69 083)  |
| Acquisition of investments                                                                                           | (740 816) | (600 019) | (267 941) |
| Disposal of investments                                                                                              | 100 916   | 30 524    |           |
| Net decrease (increase) of loans                                                                                     | 7 968     | (146 283) | (195 439) |
| Net decrease (increase) of shares                                                                                    | 11 395    | (300 076) | 16 080    |
| Net decrease (increase) of units                                                                                     | 21 327    | (236)     | (82)      |
| Acquisition of fixed assets                                                                                          | (688)     | (572)     | (910)     |
| Deferred fees to financial intermediaries                                                                            | (37 872)  | (31 362)  | (24 642)  |
|                                                                                                                      | (638 167) | (978 941) | (542 017) |
| Amounts carried forward                                                                                              | (671 472) | (963 289) | (540 553) |

**INVESTISSEMENT QUÉBEC**

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

|                                                                                                 | <u>2005</u>      | <u>2004</u>      | <u>2003</u>      |
|-------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| Amounts brought forward                                                                         | <u>(671 472)</u> | <u>(963 289)</u> | <u>(540 553)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                     |                  |                  |                  |
| Net increase (decrease) of short-term debt                                                      | (135 000)        | (28 700)         | 44 500           |
| Long-term debt                                                                                  | 821 200          | 1 140 820        | 674 089          |
| Repayment of long-term debt                                                                     | (13 200)         | (140 916)        | (205 982)        |
| Deferred issuance expenses on long-term debt                                                    | <u>(700)</u>     | <u>(4 099)</u>   | <u>(1 716)</u>   |
|                                                                                                 | <u>672 300</u>   | <u>967 105</u>   | <u>510 891</u>   |
| <b>NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS</b>                                     | 828              | 3 816            | (29 662)         |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                           | <u>7 459</u>     | <u>3 643</u>     | <u>33 305</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                                 | <u>8 287</u>     | <u>7 459</u>     | <u>3 643</u>     |
| <b>CASH AND CASH EQUIVALENTS</b>                                                                |                  |                  |                  |
| Cash                                                                                            |                  | 2 469            |                  |
| Temporary investments with a maturity not exceeding three months following the acquisition date | 9 191            | 4 990            | 4 542            |
| Outstanding cheques less cash                                                                   | <u>(904)</u>     | <u></u>          | <u>(899)</u>     |
|                                                                                                 | <u>8 287</u>     | <u>7 459</u>     | <u>3 643</u>     |
| <b>ADDITIONAL INFORMATION</b>                                                                   |                  |                  |                  |
| Interest paid                                                                                   | <u>35 901</u>    | <u>30 156</u>    | <u>30 740</u>    |

The notes are an integral part of the financial statements.

## INVESTISSEMENT QUÉBEC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at March 31, 2005

(in thousands of dollars)

#### 1. INCORPORATING LEGISLATION AND NATURE OF ACTIVITIES

Investissement Québec is a public law legal entity incorporated and governed under the Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1), and, as such, is not subject to income taxes.

Investissement Québec's mission is to promote investment growth in Québec, thereby contributing to the economic development of Québec and job creation. It centralizes and consolidates Government action in research, promotion and support for investment. It strives not only to stimulate domestic investment, but also to attract outside investors by promoting Québec as an excellent place for investment. Investissement Québec participates in the growth of businesses by facilitating research and development as well as exports. By lending its support to companies already established here, it works to retain current investment in Québec. It can also offer companies and government departments, agencies and corporations a variety of technical services, particularly in the fields of financial analysis, credit arrangement and portfolio management. Investissement Québec administers the financial assistance programs developed by the government with regard to investment. The Corporation also administers the Act respecting Québec Business Investment Companies (R.S.Q., c. S-29.1), and fulfils any mandate assigned to it by the Government under sections 28 and 29 of its incorporating statute. It uses its financing operations to support Québec companies or companies that are setting up operations in Québec, mainly by granting them loans or guaranteeing the financial commitments they make to financial institutions. It also administers the financial assistance programs stemming from the Act respecting assistance for the development of cooperatives and non-profit legal persons (R.S.Q., c. A-12.1).

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the parent company shall establish a business plan, which includes the activities of its subsidiaries, according to the form, content and frequency determined by the Québec government. This plan was approved on September 22, 2004 (decree number 878-2004) and ends on March 31, 2007. The plan provides that the Québec government contribute to the Corporation's financing by reimbursing most financial contributions and losses on certain financing operations, according to the terms and conditions of the programs or decrees under which they were set up, by paying it a contribution as interest on certain financing operations for which it refunds losses and by paying it fees.

Under decree number 315-2004, dated March 31, 2004, the Corporation acquired, on April 1, 2004, the assets, liabilities and guarantees of its subsidiary La Financière du Québec at a price equal to their book value. The acquisition price of \$157.9 million was covered by an advance in the same amount. In addition, on April 27, 2004, the subsidiary redeemed 608 766 shares of its share capital, which was held by the Corporation, for an amount of \$60.9 million.

#### 2. MAIN ACCOUNTING POLICIES

The consolidated financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles. As such, management is required to make estimates and assumptions that influence the amounts and other information disclosed in the financial statements.

The consolidated financial statements comprise 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.

##### Cash and Cash Equivalents

The Corporation presents, under cash and cash equivalents, cash on hand, temporary investments maturing no later than three months following their acquisition date, as well as outstanding cheques less cash or bank overdraft, as in the case.

##### Investments

Notes receivable from the Québec government are accounted for at cost and discounts on acquisition of investments are charged to the statement of income according to the real-interest method until maturity.

Investment in an affiliated company is accounted for under the equity method.

Other investments are accounted for at cost and, if necessary, discounts and premiums on acquisition of investments are charged to the statement of income according to the straight-line method until maturity.

**INVESTISSEMENT QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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**2. MAIN ACCOUNTING POLICIES (cont'd)****Loans, Shares and Units**

Loans (including accrued interest receivable), shares and units are recorded at cost. When the credit rating has deteriorated to the extent that there is no reasonable assurance that a loan (principal and interest) will be collected in full, the loan is considered doubtful. The decrease in the book value then recognized and any subsequent changes are applied to the provision for losses.

When a loan for which losses are not refunded by the Québec government becomes doubtful and the borrower owes more than three months' interest, the interest ceases to be recognized. The interest received on such loans is recorded as a recovery up to the amount written off or for which a provision has been entered, and is subsequently recorded as interest income.

Foreclosed assets are considered as doubtful loans and are recorded at their fair value at the time of foreclosure. The decrease in the book value is then recognized. Any subsequent decrease is applied to the provision for losses.

The book value of loans for which losses are not refunded by the Québec government, restructured as low-interest loans, interest-free loans or preferred shares, is recorded at the present value of net cash flows receivable pursuant to the new conditions, at the real interest rate inherent in the loan. The decrease in the book value resulting from the restructuring is charged to the provision for losses. The increase in the present value, attributable to the passage of time, is accounted for as interest income.

Common shares stemming from restructured loans for which losses are not refunded by the Québec government are recorded at their book value immediately after the loans have been restructured. The difference between the book value of a loan prior to restructuring and the book value of the resulting shares is applied to the provision for losses. Any subsequent decrease in the book value of the shares is also applied to the provision for losses. Any subsequent increase is recognized only upon the sale of the shares, as a gain on the disposal of shares during the current year.

**Guarantees**

Guarantees, less the accumulated provision for losses, are an off-balance-sheet financial instrument.

Guarantee claims are recorded once they have been approved by the Corporation. Disbursements are then applied to reduce the accumulated provision for losses on guarantees and the guarantees balance is reduced accordingly.

When the Corporation considers that there is reasonable assurance that a loan will be repaid, these disbursements are recorded as assets in accordance with the accounting policies applicable to loans, shares and units.

**Accumulated Provision for Losses**

The accumulated provision for losses on loans, shares and units is shown on the Corporation's balance sheet, offset against the value of its assets. The accumulated provision for losses on loan guarantees is shown as a liability on the balance sheet. According to the Corporation, these provisions represent the most accurate estimate possible of the foreseeable amounts for losses on financing operations that are part of its portfolio.

Except for companies that benefit from business start-up and re-start investment programs and special class shares programs, client companies are classified under seven risk categories, determined using solvency and credit criteria; this classification is updated regularly.

One of these categories is insolvent clients, while two others refer to companies that are likely to become insolvent in the short term. All doubtful loans are found in one of these categories. The provision for losses on financing operations included in these three categories corresponds to the balance of each operation, less the estimated realizable value of securities, to which a percentage adjustment is applied based on loan collection experience for the companies in these categories. When a company assigned to either category is winding up, has ceased repaying the Corporation and is unlikely to put its finances in order, the related financing operations are written off.



## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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### 2. MAIN ACCOUNTING POLICIES (cont'd)

#### Accumulated Provision for Losses (cont'd)

The four other risk categories comprise companies whose financial profile corresponds to that of the Corporation's target clientele. A group provision is calculated for each of these categories by applying a provision rate to the balance of the financing operations. The provision rate for each category is based on a statistical analysis of the number of companies that have been downgraded and the size of the losses noted or deemed probable over a given previous period.

Companies for which the Corporation's financing operations show an exceptionally high cumulative balance or present specific characteristics are subject to a specific provision for losses analysis, regardless of their risk category.

A global provision is calculated for business start-up and re-start investment programs. This provision corresponds to the amount of authorized guarantees to which a rate based on past experience is applied, less disbursements in respect of loan guarantees under these programs.

Certain loans may be forgiven according to the conditions set out in the loan agreement. The provision for losses on these loans takes into account the insolvency risks mentioned above and the inherent risk in the loan agreement.

Special class shares are non-participating shares, with no dividends and no redemption date. These shares are subject to a specific provision for losses analysis.

#### Receivable from the Québec Government

The Québec government contributes to the Corporation's financing by reimbursing most financial contributions and losses on certain financing operations, by paying interest on certain financing operations, and by paying fees to the Corporation. The receivable balance for these contributions appears under the heading "Other Assets".

#### Tangible Assets

Tangible assets are recorded at cost. They are depreciated as of their start-up date, according to their estimated useful lives, under the straight-line method, at the following rates:

|                        |         |
|------------------------|---------|
| Computer equipment     | 33 1/3% |
| Office furniture       | 10%     |
| Leasehold improvements | 10%     |

#### Limited-Life Intangible Assets

Software and information systems development are recorded at cost. They are depreciated as of their start-up date, according to their estimated useful lives, under the straight-line method, at the following rates:

|                                 |         |
|---------------------------------|---------|
| Software                        | 33 1/3% |
| Information systems development | 20%     |

#### Issuance Expenses, Long-Term Debt Discounts and Premiums

Issuance expenses, long-term debt discounts and premiums are deferred and amortized over the term of the related loan according to the straight-line method. Deferred issuance expenses on long-term debt are included in other assets. Deferred discounts and premiums are presented as a deduction from or addition to the loans with which they are associated.

#### Land Held for Decontamination Purposes

Land is valued at cost or the net realizable value, whichever is lower.

**INVESTISSEMENT QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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**2. MAIN ACCOUNTING POLICIES (cont'd)****Risk Premiums**

When approving a financing operation, the Corporation generally requires a risk premium from the client company. The stock option premium is recorded at fair value. The share-in-earnings premium is payable and recorded no later than six months after the end of the company's fiscal year. The lump-sum premium is recorded when due according to the contract.

Gains on the disposal of shares acquired following the exercise of an option are shown under the heading "Risk Premiums – Stock Options" in the Corporation's statement of income.

**Financial Contributions**

Financial contributions are made up of non-refundable financial contributions and conditional-refund financial contributions.

Financial contributions are charged to the statement of income for the fiscal year in which the Corporation approved the payment. The corresponding contribution from the Québec government for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recorded in the same fiscal year.

Subsequent recoveries of conditional-refund financial contributions are charged to the statement of income for the current fiscal year. The applicable Québec government refund is also recorded in the statement of income for the current fiscal year.

**Fees Paid to Financial Intermediaries**

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for canvassing immigrant investors, for finding companies to recommend for a non-refundable financial contribution, and for closing immigrant investors' files.

Fees paid for canvassing an immigrant investor and fees paid for finding a company to recommend are accounted for once the company has accepted the financing operation. Fees paid for canvassing an immigrant investor are deferred and charged to the statement of income for the duration of the corresponding investment, namely five years, according to the straight-line depreciation method. Fees for closing an immigrant investor's file are recorded on the date the file is closed.

**Financial Derivative Instruments**

The Corporation holds financial derivative instruments for the purpose of managing the interest rate risk stemming from positions appearing in the balance sheet. These financial instruments are accounted for at fair value, and the resulting gains or losses are applied to income, as an interest rate adjustment. Unmatured financial instruments are disclosed under "Other Assets" and "Other Liabilities".

**Currency Translation**

Monetary assets and liabilities and guarantees expressed in foreign currency are translated into Canadian dollars at the rate applicable on the date of the balance sheet. Income and expenses denominated in foreign currency are, for their part, translated into Canadian dollars at the prevailing exchange rate on the transaction date.

**Pension Plans**

The Corporation contributes to government multi-employer defined-benefit pension plans. However, these contributions are accounted for according to the accounting policies concerning defined contribution plans, since the Corporation's obligations toward these government plans are limited to its contributions as an employer.

The Corporation also instituted an optional supplementary pension plan in order to pay retirement benefits to certain members of senior management, in addition to those paid under the basic pension plan. The cost of the retirement benefits accumulated by these employees is established through actuarial calculations based on the defined-benefit method according to years of service, using management's most probable assumptions regarding the expected return on plan investments, the increase in salaries and the retirement age of employees.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

### 3. CHANGE IN THE ACCOUNTING POLICIES

The Corporation changed the accounting treatment of stock option risk premiums following the implementation of the EIC-128 regarding the "Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments" issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants. Thus, since July 1, 2004, the Corporation has adopted the fair value method.

This change in the accounting policies was applied retroactively by restating the consolidated balance sheet as at March 31, 2004 to take into account the variation between the fair value and the acquisition cost of stock options. As a result, the surplus, as well as other assets, were increased by \$3.9 million.

### 4. TEMPORARY INVESTMENTS

|                                                                                                                                                       | 2005         | 2004         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Temporary investments with a maturity not exceeding three months following the acquisition date:                                                      |              |              |
| Deposit certificates, from 2.50% to 2.56%, maturing in April 2005                                                                                     | 7 699        | 4 592        |
| Canada Treasury Bills, from 2.43% to 2.48%, maturing between April and June 2005                                                                      | 1 492        | 398          |
| Canada Treasury Bills, with a maturity exceeding three months following the acquisition date, from 2.43% to 2.56%, maturing between May and July 2005 | 397          |              |
|                                                                                                                                                       | <u>9 588</u> | <u>4 990</u> |

### 5. INVESTMENTS

|                                                                                                                                               | 2005             | 2004             |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Notes receivable from the Québec government, from 3.56% to 6.01% maturing between January 2006 and March 2010, nominal value of \$1.8 billion | 1 561 067        | 921 587          |
| Bonds and other debt instruments, from 2.88% to 7.07%, maturing between April 2006 and January 2015, nominal value of \$97.5 million          | 102 335          | 69 636           |
| Money market securities – Mutual funds                                                                                                        | 34 539           | 23 448           |
| Shares and other equity                                                                                                                       | 33 021           | 23 682           |
| Affiliated company - FIER Partenaires inc., valued under the equity accounting method                                                         | 1                |                  |
| Affiliated company – FIER Partenaires, s.e.c., valued under the equity accounting method                                                      | 197              |                  |
| Affiliated company – Canadair Québec Capital S.E.N.C., valued under the equity accounting method                                              | 86               | 23               |
|                                                                                                                                               | <u>1 731 246</u> | <u>1 038 376</u> |

The amount of investments denominated in US dollars totalled \$8.6 million in Canadian dollars as at March 31, 2005 (\$5.7 million as at March 31, 2004).

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 5. INVESTMENTS (cont'd)

The maturities of the investments, at nominal value, are as follows:

|                 |                  |
|-----------------|------------------|
| 2006            | 1 527            |
| 2007            | 201 885          |
| 2008            | 321 378          |
| 2009            | 507 137          |
| 2010 and beyond | 631 475          |
| No maturity     | 67 844           |
|                 | <u>1 731 246</u> |

## 6. LOANS, LESS ACCUMULATED PROVISION FOR LOSSES

|                                         | 2005                                                     |                                                      |                  | 2004             |
|-----------------------------------------|----------------------------------------------------------|------------------------------------------------------|------------------|------------------|
|                                         | Losses Not<br>Refunded<br>by the<br>Québec<br>Government | Losses<br>Refunded<br>by the<br>Québec<br>Government | Total            | Total            |
| <b>Loans</b>                            |                                                          |                                                      |                  |                  |
| Interest-bearing                        |                                                          |                                                      |                  |                  |
| Fixed rate <sup>(1)</sup>               | 5 319                                                    | 137 032                                              | 142 351          | 107 912          |
| Variable rate <sup>(2)</sup>            | 33 352                                                   | 146 746                                              | 180 098          | 305 966          |
|                                         | <u>38 671</u>                                            | <u>283 778</u>                                       | <u>322 449</u>   | <u>413 878</u>   |
| Interest-free                           | 190                                                      | 413 857                                              | 414 047          | 433 738          |
| Restructured                            | 2 016                                                    |                                                      | 2 016            | 1 640            |
| Doubtful                                | 33 447                                                   | 397 285                                              | 430 732          | 327 956          |
|                                         | <u>74 324</u>                                            | <u>1 094 920</u>                                     | <u>1 169 244</u> | <u>1 177 212</u> |
| <b>Accumulated provision for losses</b> |                                                          |                                                      |                  |                  |
| Interest-bearing loans                  | (7 135)                                                  | (41 009)                                             | (48 144)         | (46 688)         |
| Interest-free loans                     | (40)                                                     | (61 421)                                             | (61 461)         | (29 756)         |
| Restructured loans                      | (1 382)                                                  |                                                      | (1 382)          | (539)            |
| Doubtful loans                          | (22 427)                                                 | (290 905)                                            | (313 332)        | (298 251)        |
|                                         | <u>(30 984)</u>                                          | <u>(393 335)</u>                                     | <u>(424 319)</u> | <u>(375 234)</u> |
|                                         | <u>43 340</u>                                            | <u>701 585</u>                                       | <u>744 925</u>   | <u>801 978</u>   |

Anticipated cash receipts from loans, according to  
contractual provisions, are as follows:

|                     |               |                  |                  |                  |
|---------------------|---------------|------------------|------------------|------------------|
| Less than one year  | 19 181        | 129 640          | 148 821          | 132 067          |
| From 1 to 2 years   | 12 373        | 137 330          | 149 703          | 99 579           |
| From 2 to 3 years   | 11 176        | 87 225           | 98 401           | 147 645          |
| From 3 to 4 years   | 6 501         | 92 871           | 99 372           | 115 746          |
| From 4 to 5 years   | 10 431        | 96 065           | 106 496          | 99 409           |
| From 5 to 10 years  | 14 176        | 412 151          | 426 327          | 419 629          |
| From 10 to 20 years | 486           | 139 638          | 140 124          | 163 137          |
|                     | <u>74 324</u> | <u>1 094 920</u> | <u>1 169 244</u> | <u>1 177 212</u> |

(1) Fixed interest rates ranged between 2.75% and 12.00% as at March 31, 2005 (between 3.00% and 12.00% as at March 31, 2004).

(2) The Corporation's variable interest rate was 5.75% as at March 31, 2005 (5.50% as at March 31, 2004).

# **INVESTISSEMENT QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## **7. SHARES, LESS ACCUMULATED PROVISION FOR LOSSES**

|                                                        | 2005                                                     |                                                      | 2004            |
|--------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------|-----------------|
|                                                        | Losses Not<br>Refunded<br>by the<br>Québec<br>Government | Losses<br>Refunded<br>by the<br>Québec<br>Government | Total           |
|                                                        |                                                          |                                                      | Total           |
| <b>Shares</b>                                          |                                                          |                                                      |                 |
| Common                                                 | 1 178                                                    | 28 175                                               | 29 353          |
| Preferred                                              | 1 459                                                    | 346 077                                              | 347 536         |
| Of a special class                                     |                                                          | 5 972                                                | 5 972           |
| Common shares from restructured loans                  | 725                                                      |                                                      | 725             |
| Preferred shares from restructured loans               | 427                                                      |                                                      | 427             |
|                                                        | <u>3 789</u>                                             | <u>380 224</u>                                       | <u>384 013</u>  |
|                                                        |                                                          |                                                      | <u>393 290</u>  |
| <b>Accumulated provision for losses</b>                |                                                          |                                                      |                 |
| Common shares                                          | (507)                                                    | (12 862)                                             | (13 369)        |
| Preferred shares                                       | (1 053)                                                  | (29 687)                                             | (30 740)        |
| Special class of shares                                |                                                          | (5 972)                                              | (5 972)         |
| Common shares from restructured loans                  | (580)                                                    |                                                      | (580)           |
| Preferred shares from restructured loans               | (341)                                                    |                                                      | (341)           |
|                                                        | <u>(2 481)</u>                                           | <u>(48 521)</u>                                      | <u>(51 002)</u> |
|                                                        |                                                          |                                                      | <u>(50 568)</u> |
|                                                        | <u>1 308</u>                                             | <u>331 703</u>                                       | <u>333 011</u>  |
|                                                        |                                                          |                                                      | <u>342 722</u>  |
| <b>Share redemption maturities are<br/>as follows:</b> |                                                          |                                                      |                 |
| Less than one year                                     | 50                                                       | 80                                                   | 130             |
| From 1 to 2 years                                      | 449                                                      | 80                                                   | 529             |
| From 2 to 3 years                                      | 23                                                       | 80                                                   | 103             |
| From 3 to 4 years                                      | 75                                                       | 53                                                   | 128             |
| From 4 to 5 years                                      | 75                                                       | 52                                                   | 127             |
| From 5 to 10 years                                     | 180                                                      | 17 620                                               | 17 800          |
| From 10 to 20 years                                    |                                                          | 45 000                                               | 45 000          |
| More than 20 years                                     |                                                          | 260 000                                              | 260 000         |
|                                                        | <u>852</u>                                               | <u>322 965</u>                                       | <u>323 817</u>  |
|                                                        |                                                          |                                                      | <u>323 848</u>  |
| No maturity                                            | <u>2 937</u>                                             | <u>57 259</u>                                        | <u>60 196</u>   |
|                                                        | <u>3 789</u>                                             | <u>380 224</u>                                       | <u>384 013</u>  |
|                                                        |                                                          |                                                      | <u>393 290</u>  |

The Corporation holds shares issued by public companies. The net book value of these shares as at March 31, 2005 was \$5.1 million (\$9.1 million as at March 31, 2004). According to stock market quotations as at March 31, 2005, these shares had a value of \$6.0 million (\$14.7 million as at March 31, 2004).

The Corporation has a put option on the common shares that it holds in a company. The put can be exercised in part (76.8%) as of January 2006 and in whole as of January 2009. Bases on the minimum redemption price specified in the contract, the gain resulting from the full exercise of this put would be \$8.2 million.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**8. UNITS, LESS ACCUMULATED PROVISION FOR LOSSES**

|                                                       | 2005                                                     |                                                      |                 | 2004          |
|-------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------|-----------------|---------------|
|                                                       | Losses Not<br>Refunded<br>by the<br>Québec<br>Government | Losses<br>Refunded<br>by the<br>Québec<br>Government | Total           | Total         |
| <b>Units</b>                                          |                                                          |                                                      |                 |               |
| Preferred of cooperatives                             | 270                                                      | 2 744                                                | 3 014           | 2 960         |
| Of a limited partnership                              |                                                          | 11 639                                               | 11 639          | 18 949        |
| Preferred of cooperatives from<br>restructured loans  | 984                                                      |                                                      | 984             |               |
|                                                       | <u>1 254</u>                                             | <u>14 383</u>                                        | <u>15 637</u>   | <u>21 909</u> |
| <b>Accumulated provision for losses</b>               |                                                          |                                                      |                 |               |
| Preferred units of cooperatives                       | (186)                                                    | (802)                                                | (988)           | (633)         |
| Units of a limited partnership                        |                                                          | (11 639)                                             | (11 639)        |               |
| Preferred of cooperatives from<br>restructured loans  | (266)                                                    |                                                      | (266)           |               |
|                                                       | <u>(452)</u>                                             | <u>(12 441)</u>                                      | <u>(12 893)</u> | <u>(633)</u>  |
|                                                       | <u>802</u>                                               | <u>1 942</u>                                         | <u>2 744</u>    | <u>21 276</u> |
| <b>Unit redemption maturities are<br/>as follows:</b> |                                                          |                                                      |                 |               |
| Less than one year                                    | 225                                                      | 79                                                   | 304             | 6 459         |
| From 1 to 2 years                                     |                                                          | 31                                                   | 31              | 6 365         |
| From 2 to 3 years                                     |                                                          | 38                                                   | 38              | 6 385         |
| From 3 to 4 years                                     |                                                          | 38                                                   | 38              | 80            |
| From 4 to 5 years                                     |                                                          | 38                                                   | 38              | 77            |
| From 5 to 10 years                                    | 639                                                      | 325                                                  | 964             | 598           |
| From 10 to 20 years                                   | 344                                                      |                                                      | 344             |               |
|                                                       | <u>1 208</u>                                             | <u>549</u>                                           | <u>1 757</u>    | <u>19 964</u> |
| No maturity                                           | 46                                                       | 13 834                                               | 13 880          | 1 945         |
|                                                       | <u>1 254</u>                                             | <u>14 383</u>                                        | <u>15 637</u>   | <u>21 909</u> |

# INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 9 GUARANTEES, LESS ACCUMULATED PROVISION FOR LOSSES

|                                                                       | 2005                                                     |                                                      |                  | 2004             |
|-----------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------|------------------|------------------|
|                                                                       | Losses Not<br>Refunded<br>by the<br>Québec<br>Government | Losses<br>Refunded<br>by the<br>Québec<br>Government | Total            | Total            |
| <b>Guarantees</b>                                                     |                                                          |                                                      |                  |                  |
| Loans                                                                 | 194 378                                                  | 309 231                                              | 503 609          | 590 319          |
| Financial commitment                                                  | 41 006                                                   | 1 182 566                                            | 1 223 572        | 889 742          |
|                                                                       | <u>235 384</u>                                           | <u>1 491 797</u>                                     | <u>1 727 181</u> | <u>1 480 061</u> |
| <b>Accumulated provision for losses</b>                               |                                                          |                                                      |                  |                  |
| Loan guarantees                                                       | (40 235)                                                 | (59 692)                                             | (99 927)         | (144 144)        |
| Financial commitment guarantees                                       | (11 632)                                                 | (44 967)                                             | (56 599)         | (75 513)         |
|                                                                       | <u>(51 867)</u>                                          | <u>(104 659)</u>                                     | <u>(156 526)</u> | <u>(219 657)</u> |
|                                                                       | <u>183 517</u>                                           | <u>1 387 138</u>                                     | <u>1 570 655</u> | <u>1 260 404</u> |
| <b>Loan guarantee balance, broken down<br/>according to maturity:</b> |                                                          |                                                      |                  |                  |
| Less than one year                                                    | 49 916                                                   | 45 368                                               | 95 284           | 150 272          |
| From 1 to 2 years                                                     | 17 591                                                   | 21 708                                               | 39 299           | 37 603           |
| From 2 to 3 years                                                     | 8 307                                                    | 11 297                                               | 19 604           | 76 725           |
| From 3 to 4 years                                                     | 25 071                                                   | 18 201                                               | 43 272           | 29 290           |
| From 4 to 5 years                                                     | 25 047                                                   | 18 879                                               | 43 926           | 54 575           |
| From 5 to 10 years                                                    | 103 472                                                  | 190 412                                              | 293 884          | 274 286          |
| From 10 to 20 years                                                   | 5 980                                                    | 1 185 932                                            | 1 191 912        | 857 310          |
|                                                                       | <u>235 384</u>                                           | <u>1 491 797</u>                                     | <u>1 727 181</u> | <u>1 480 061</u> |

The amount of guarantees denominated in US dollars totalled \$1.2 billion in Canadian dollars as at March 31, 2005 (\$835.6 million as at March 31, 2004) and the amount of guarantees denominated in other currencies stood at \$39.0 million in Canadian dollars as at March 31, 2005 (\$41.8 million as at March 31, 2004).

## 10. ACCUMULATED PROVISION FOR LOSSES

|                                                         | 2005                                                     |                                                                     |                 | 2004            |
|---------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------|-----------------|-----------------|
|                                                         | Losses Not<br>Refunded<br>by the<br>Québec<br>Government | Losses<br>Refunded<br>by the<br>Québec<br>Government <sup>(1)</sup> | Total           | Total           |
| Balance at beginning of year                            | 83 341                                                   | 562 751                                                             | 646 092         | 437 944         |
| Provision for losses <sup>(2)</sup>                     | 19 200                                                   | 146 542                                                             | 165 742         | 273 023         |
| Recoveries                                              | 449                                                      | 196                                                                 | 645             | 620             |
| Write-offs <sup>(3)</sup>                               | (6 640)                                                  | (82 556)                                                            | (89 196)        | (47 709)        |
| Guarantee disbursements that did not<br>create an asset | <u>(10 566)</u>                                          | <u>(67 977)</u>                                                     | <u>(78 543)</u> | <u>(17 786)</u> |
| Balance at end of year                                  | <u>85 784</u>                                            | <u>558 956</u>                                                      | <u>644 740</u>  | <u>646 092</u>  |

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**10. ACCUMULATED PROVISION FOR LOSSES (cont'd)**

|                                                                     | 2005                                                     |                                                                     |                | 2004           |
|---------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------|----------------|----------------|
|                                                                     | Losses Not<br>Refunded<br>by the<br>Québec<br>Government | Losses<br>Refunded<br>by the<br>Québec<br>Government <sup>(1)</sup> | Total          | Total          |
| <b>Accumulated provision for losses<br/>broken down as follows:</b> |                                                          |                                                                     |                |                |
| Loans                                                               | 30 984                                                   | 393 335                                                             | 424 319        | 375 234        |
| Shares                                                              | 2 481                                                    | 48 521                                                              | 51 002         | 50 568         |
| Units                                                               | 452                                                      | 12 441                                                              | 12 893         | 633            |
| Guarantees                                                          | 51 867                                                   | 104 659                                                             | 156 526        | 219 657        |
|                                                                     | <u>85 784</u>                                            | <u>558 956</u>                                                      | <u>644 740</u> | <u>646 092</u> |

The Corporation can demand that companies provide securities and sureties. The nature of the securities generally concerns the universality of the client company's assets, notably land, buildings, equipment, machinery and furniture. However, the provision for losses takes into account only the value of securities and sureties related to companies that are insolvent or that would likely become insolvent over the short term. The value of securities and sureties related to loans, shares and units stood at \$117.7 million as at March 31, 2005 (\$108.2 million as at March 31, 2004) and that of securities and sureties related to guarantees concerning companies that are insolvent or that would likely become insolvent over the short term stood at \$24.6 million as at March 31, 2005 (\$24.2 million as at March 31, 2004).

- (1) Corresponds to the "Accumulated provision for losses recoverable from the Québec government" shown as an asset on the balance sheet.  
 (2) Includes an amount of \$3.1 million for exchange gains as at March 31, 2005 (\$2.5 million as at March 31, 2004).  
 (3) Write-offs in the form of restructured loans as well as write-offs for shares from restructured loans amount to \$0.8 million for the fiscal year ended March 31, 2005 (\$1.3 million as at March 31, 2004).

**11. OTHER ASSETS**

|                                                                                                                           | 2005           | 2004<br>(restated)<br>(Note 3) |
|---------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| Receivable from the Québec government                                                                                     | 48 171         | 12 437                         |
| Stock options                                                                                                             | 3 927          | 3 952                          |
| Deferred fees to financial intermediaries                                                                                 | 71 009         | 50 106                         |
| Interest and dividends receivable on investments                                                                          | 1 805          | 1 117                          |
| Deferred issuance expenses on long-term debt <sup>(1)</sup>                                                               | 5 194          | 5 207                          |
| Assets related to financial derivative instruments                                                                        |                | 15                             |
| Tangible assets, less accumulated amortization of<br>\$3.0 million (\$2.6 million as at March 31, 2004)                   | 2 138          | 2 542                          |
| Limited-life intangible assets, less accumulated<br>amortization of \$6.1 million (\$5.8 million<br>as at March 31, 2004) | 604            | 579                            |
| Land held for decontamination purposes (Note 31) <sup>(2)</sup>                                                           |                | 297                            |
| Other receivables                                                                                                         | <u>4 013</u>   | <u>2 554</u>                   |
|                                                                                                                           | <u>136 861</u> | <u>78 806</u>                  |

- (1) From transactions concluded with the Fonds de financement du gouvernement du Québec.  
 (2) The tenant has the option to buy the land for one dollar.



## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

### 12. SHORT-TERM DEBT

|                                                                                       | 2005           | 2004           |
|---------------------------------------------------------------------------------------|----------------|----------------|
| Banker's acceptances – financial institutions, 2.64% to 2.65%, maturing in April 2005 | 127 200        | 44 000         |
| Notes – financial institutions, from 2.65% to 2.68%, maturing in April and May 2005   | 44 200         | 193 900        |
| Notes – Fonds de financement du gouvernement du Québec, 2.63%, maturing in April 2005 | 64 500         | 133 000        |
|                                                                                       | <u>235 900</u> | <u>370 900</u> |

Under decrees numbers 310-2002 and 311-2002, dated March 20, 2002, the Corporation is authorized to contract active short-term loans totalling up to \$600 million, until September 30, 2006, with financial institutions or the Fonds de financement du gouvernement du Québec. In addition, under decree number 675-2004, dated June 30, 2004, the Minister of Economic Development, Innovation and Export Trade is authorized to pay the Corporation the amounts required to offset the nonfulfillment of obligations stemming from loans with the Fonds de financement du gouvernement du Québec.

As at March 31, 2005, the Corporation had bank credit lines of \$10 million, renewable in July 2005. The used amounts bear interest at the lender's prime rate.

### 13. LONG-TERM DEBT

|                                                                                                         | 2005             | 2004             |
|---------------------------------------------------------------------------------------------------------|------------------|------------------|
| Notes – Fonds de financement du gouvernement du Québec:                                                 |                  |                  |
| - at the banker's acceptance rate (1 month) plus 0.19%, maturing in October 2007                        | 75 000           | 75 000           |
| - at the banker's acceptance rate (1 month) plus 0.28 %, maturing in July 2009                          | 175 000          | 175 000          |
| - 4.33%, maturing in July 2010                                                                          | 28 200           | 28 200           |
| - 8.00%, maturing in December 2010, nominal value of \$75.6 million (effective rate of 6.07%)           | 81 997           | 83 126           |
| - at the banker's acceptance rate (3 months) plus 0.15%, maturing in October 2013                       | 100 000          | 100 000          |
| - at the banker's acceptance rate (1 month) plus 0.08%, maturing in October 2013                        | 60 000           | 60 000           |
| - at the banker's acceptance rate (1 month) plus 0.05%, maturing in October 2013 <sup>(1)</sup>         | 162 500          | 162 500          |
| - at the banker's acceptance rate (1 month) plus 0.12%, maturing in October 2013                        | 134 120          | 134 120          |
| - at the banker's acceptance rate (1 month) plus 0.09%, maturing in October 2013 <sup>(1)</sup>         | 52 500           | 52 500           |
| - at the banker's acceptance rate (1 month) plus 0.10%, maturing between February 2012 and May 2014     | 100 000          |                  |
| - at the banker's acceptance rate (1 month) plus 0.21%, maturing In June 2032                           | 47 500           | 47 500           |
| Notes – immigrant investors, interest-free, maturing between January 2006 and April 2010 <sup>(2)</sup> | 1 793 200        | 1 085 200        |
|                                                                                                         | <u>2 810 017</u> | <u>2 003 146</u> |

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

### 13. LONG-TERM DEBT (cont'd)

Repayments of the principal on long-term debt are as follows:

|                 |                  |
|-----------------|------------------|
| 2006            | 1 600            |
| 2007            | 188 800          |
| 2008            | 404 600          |
| 2009            | 553 600          |
| 2010            | 892 200          |
| 2011 and beyond | <u>769 217</u>   |
|                 | <u>2 810 017</u> |

Under decrees numbers 482-2002 and 483-2002, dated April 24, 2002 and amended by decree number 342-2003, dated March 5, 2003, the Corporation is authorized to contract long-term loans totalling up to \$1.5 billion, until September 30, 2006, with the Fonds de financement du gouvernement du Québec. In addition, under decree number 675-2004, dated June 30, 2004, the Minister of Economic Development, Innovation and Export Trade is authorized to pay the Corporation the amounts required to offset the non-fulfillment of obligations stemming from loans with the Fonds de financement du gouvernement du Québec.

- (1) The Corporation has the option of renewing this loan, for a maximum period of 20 years from the maturity of the initial loan.
- (2) Payment of principal is guaranteed by Québec.

### 14. OTHER LIABILITIES

|                                                | <u>2005</u>   | <u>2004</u>   |
|------------------------------------------------|---------------|---------------|
| Financial contributions and guarantees payable | 5 203         | 4 607         |
| Fees payable to financial intermediaries       | 554           | 702           |
| Deferred income <sup>(1)</sup>                 | 2 053         | 1 982         |
| Sick leave and vacations payable (Note 30)     | 9 990         | 9 863         |
| Other payables <sup>(2)</sup>                  | <u>4 556</u>  | <u>3 016</u>  |
|                                                | <u>22 356</u> | <u>20 170</u> |

- (1) Includes the deferred contribution of the Ministère du Développement économique, de l'Innovation et de l'Exportation to the "Investors' and Promoters' Data Bank" for an amount of \$50,000 as at March 31, 2005 (\$50,000 as at March 31, 2004).
- (2) Include \$0.3 million due to related entities as at March 31, 2005 (\$0.2 million as at March 31, 2004).

### 15. INTEREST INCOME AND INTEREST CONTRIBUTION FROM QUÉBEC GOVERNMENT

|                                                                                                                     | <u>2005</u>    | <u>2004</u>   | <u>2003</u>   |
|---------------------------------------------------------------------------------------------------------------------|----------------|---------------|---------------|
| Interest on loans                                                                                                   | 39 143         | 36 940        | 25 198        |
| Interest on notes receivable from Québec government                                                                 | 54 345         | 30 985        | 15 112        |
| Interest on cash and temporary investments                                                                          | 197            | 1 741         | 1 669         |
| Interest contribution from Québec government on certain low-yield or zero-yield financing operations <sup>(1)</sup> | <u>27 420</u>  | <u>27 688</u> | <u>21 924</u> |
|                                                                                                                     | <u>121 105</u> | <u>97 354</u> | <u>63 903</u> |

- (1) This contribution concerns financing operations for which losses are refunded by the Québec government. It corresponds to the surplus of the Corporation's average borrowing cost over the yield of these operations.

# **INVESTISSEMENT QUÉBEC**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

### **16. RISK PREMIUMS – STOCK OPTIONS**

|                                                                             | 2005         | 2004         | 2003         |
|-----------------------------------------------------------------------------|--------------|--------------|--------------|
| Gain on disposal of stock options                                           | 878          | 331          | 377          |
| Gain on disposal of shares stemming from the execution of stock options     | 1 556        | 3 819        | 4 911        |
| Non-realized loss resulting from changes in the fair value of stock options | (25)         |              |              |
|                                                                             | <u>2 409</u> | <u>4 150</u> | <u>5 288</u> |

### **17. OTHER INCOME**

|                                                        | 2005          | 2004         | 2003         |
|--------------------------------------------------------|---------------|--------------|--------------|
| Gain on disposal of shares and units                   | 17 173        | 508          | 222          |
| Share of earnings distributed by a limited partnership | 70            | 417          | 266          |
| Dividends                                              | 3             |              |              |
| Inducement fees                                        | 2 180         | 1 520        | 710          |
| Attestation and certification fees                     | 104           |              |              |
| Income on other investments                            | 4 564         | 1 857        |              |
| Gain on disposal of investments                        | 887           | 504          |              |
| Other income from the Québec government                | 1 885         | 512          | 322          |
| Other income                                           | 225           | 61           | 81           |
|                                                        | <u>27 091</u> | <u>5 379</u> | <u>1 601</u> |

### **18. INTEREST CHARGES**

|                                                                      | 2005          | 2004          | 2003          |
|----------------------------------------------------------------------|---------------|---------------|---------------|
| Interest on long-term debt <sup>(1)</sup>                            | 29 399        | 26 037        | 16 276        |
| Interest on short-term debt and bank charges <sup>(2)</sup>          | 6 794         | 11 052        | 10 643        |
| Net losses (net gains) on financial derivative instruments           | 107           | 511           | (5)           |
| Amortization of issuance expenses on long-term debt <sup>(1)</sup>   | 713           | 460           | 199           |
| Amortization of long-term debt discounts and premiums <sup>(1)</sup> | (1 129)       | (1 109)       | (994)         |
|                                                                      | <u>35 884</u> | <u>36 951</u> | <u>26 119</u> |

<sup>(1)</sup> From transactions concluded with the Fonds de financement du gouvernement du Québec.

<sup>(2)</sup> Interest charges on short-term loans taken out with the Fonds de financement du gouvernement du Québec totalled \$2.1 million for the fiscal year ended March 31, 2005 (\$3.8 million for the fiscal year ended March 31, 2004; \$4.2 million for the fiscal year ended March 31, 2003).

**INVESTISSEMENT QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**19. FINANCIAL CONTRIBUTIONS**

|                                            | 2005                                             |                                                          |               | 2004          | 2003          |
|--------------------------------------------|--------------------------------------------------|----------------------------------------------------------|---------------|---------------|---------------|
|                                            | Not<br>Assumed<br>by the<br>Québec<br>Government | Assumed<br>by the<br>Québec<br>Government <sup>(1)</sup> | Total         | Total         | Total         |
| Non-refundable financial contributions     | 20 968                                           | 30 818                                                   | 51 786        | 52 218        | 77 037        |
| Conditional-refund financial contributions |                                                  | 847                                                      | 847           | 3 919         | 2 597         |
|                                            | <u>20 968</u>                                    | <u>31 665</u>                                            | <u>52 633</u> | <u>56 137</u> | <u>79 634</u> |

<sup>(1)</sup> Correspond to "Financial contributions assumed by the Québec government" shown in the statement of income.

**20. OTHER EXPENSES**

|                                                                           | 2005         | 2004         | 2003       |
|---------------------------------------------------------------------------|--------------|--------------|------------|
| Counter-guarantee fees                                                    | 2 180        | 1 520        | 710        |
| Share of income – Affiliated company,<br>Canadair Québec Capital S.E.N.C. |              | 20           | 38         |
| Others                                                                    | 857          | 432          | 212        |
|                                                                           | <u>3 037</u> | <u>1 972</u> | <u>960</u> |

**21. ADMINISTRATIVE EXPENSES <sup>(1)</sup>**

|                                                  | 2005          | 2004          | 2003          |
|--------------------------------------------------|---------------|---------------|---------------|
| Salaries and employee benefits                   | 28 228        | 28 754        | 27 789        |
| Rent                                             | 2 320         | 2 419         | 2 350         |
| Travel, entertainment, advertising and promotion | 3 489         | 3 375         | 4 393         |
| Fees                                             | 1 005         | 762           | 988           |
| Amortization of fixed assets                     | 859           | 1 921         | 2 218         |
| Others                                           | 4 324         | 3 358         | 3 785         |
|                                                  | <u>40 225</u> | <u>40 589</u> | <u>41 523</u> |

<sup>(1)</sup> Includes \$4.6 million for related entities for the fiscal year ended March 31, 2005 (\$3.6 million for the fiscal year ended March 31, 2004; \$4.0 million for the fiscal year ended March 31, 2003).

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

### 22. CHANGES IN NON-CASH ITEMS RELATED TO OPERATING ACTIVITIES

|                                                                            | 2005            | 2004            | 2003            |
|----------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Other assets                                                               | (37 569)        | 204             | (4 180)         |
| Due and accrued interest on debt                                           | 297             | 6 898           | (3 838)         |
| Other liabilities                                                          | 2 186           | (3 084)         | 2 783           |
| Accumulated provision for losses                                           | (167 094)       | (64 875)        | (56 008)        |
| Accumulated provision for losses recoverable<br>from the Québec government | 150 337         | 47 992          | 34 026          |
|                                                                            | <u>(51 843)</u> | <u>(12 865)</u> | <u>(27 217)</u> |

### 23. DERIVATIVE FINANCIAL INSTRUMENTS

When authorizing a financing operation, the Corporation generally requires a stock option risk premium from the client company. The Corporation also conducts transactions in the form of standardized futures contracts for the purchase or sale of financial instruments at specific prices and at future dates. Futures contracts are traded based on 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, 2005, as represented by gains not realized in the case of stock options and by gains or losses not realized with regard to futures contracts.

|                                                      | 2005         |          |              | 2004<br>(restated)<br>(Note 3) |
|------------------------------------------------------|--------------|----------|--------------|--------------------------------|
|                                                      | Positive     | Negative | Net amount   | Net amount                     |
| Stock options                                        | 3 927        |          | 3 927        | 3 952                          |
| 3-month futures contracts on<br>banker's acceptances | 42           |          | 42           | (6)                            |
| 10-year futures contracts on<br>Canadian bonds       | 39           |          | 39           | (9)                            |
|                                                      | <u>4 008</u> |          | <u>4 008</u> | <u>3 937</u>                   |

### 24. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

Fair market value is designed to establish the approximate amounts at which financial instruments may be traded between unrelated parties acting freely under conditions of full competition in the normal course of business; the best indication of fair value is the market price.

When available, the market price is used by the Corporation to determine the fair market value of its financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures the fair value using valuation methods and assumptions. Given the role that judgement plays in the application of many accepted valuation and estimation techniques for calculating fair value, these techniques are not necessarily comparable among the different entities. Fair value is based on the market situation at a given point in time, and hence does not necessarily reflect the future fair market value of the instrument. It cannot be interpreted as the amount that would be received upon immediate settlement of the instruments.

## INVESTISSEMENT QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2005

(in thousands of dollars)

**24. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (cont'd)**

The table below shows the fair value of balance-sheet and off-balance-sheet financial instruments, including derivatives, established using the valuation methods and assumptions described below. The fair value of assets and liabilities that are not considered financial instruments, such as tangible fixed assets and limited-life intangible assets, is not presented in the table.

|                                                                         | 2005             |                  |                 | 2004 (restated)  |                                 |                        |
|-------------------------------------------------------------------------|------------------|------------------|-----------------|------------------|---------------------------------|------------------------|
|                                                                         | Book Value       | Fair Value       | Difference      | Book Value       | Fair Value                      | Difference             |
| <b>Balance-sheet financial instruments</b>                              |                  |                  |                 |                  |                                 |                        |
| <b>Assets</b>                                                           |                  |                  |                 |                  |                                 |                        |
| Cash, bank overdraft and temporary investments                          | 8 684            | 8 684            |                 | 7 459            | 7 459                           |                        |
| Investments                                                             | 1 730 962        | 1 762 962        | 32 000          | 1 038 353        | 1 082 364                       | 44 011                 |
| Loans, less accumulated provision for losses <sup>(1)</sup>             | 744 925          | 655 927          | (88 998)        | 801 978          | 672 302                         | (129 676)              |
| Shares and units, less accumulated provision for losses <sup>(1)</sup>  | 335 755          | 81 015           | (254 740)       | 363 998          | 90 813                          | (273 185)              |
| Accumulated provision for losses recoverable from the Québec government | 558 956          | 671 580          | 112 624         | 562 751          | 734 204                         | 171 453 <sup>(2)</sup> |
| Stock options                                                           | 3 927            | 3 927            |                 | 3 952            | 3 952                           |                        |
| Futures contracts                                                       |                  |                  |                 | 15               | 15                              |                        |
| Interest contributions from Québec government                           |                  | 134 791          | 134 791         |                  | 122 013                         | 122 013                |
| Other assets                                                            | 53 963           | 53 963           |                 | 16 405           | 16 405                          |                        |
|                                                                         | <u>3 437 172</u> | <u>3 372 849</u> | <u>(64 323)</u> | <u>2 794 911</u> | <u>2 729 527</u>                | <u>(65 384)</u>        |
| <b>Liabilities</b>                                                      |                  |                  |                 |                  |                                 |                        |
| Loans                                                                   | 3 045 917        | 2 838 160        | 207 757         | 2 374 046        | 2 258 861                       | 115 185                |
| Futures contracts                                                       | 81               | 81               |                 |                  |                                 |                        |
| Other liabilities                                                       | 22 877           | 22 863           | 14              | 20 592           | 20 515                          | 77                     |
|                                                                         | <u>3 068 875</u> | <u>2 861 104</u> | <u>207 771</u>  | <u>2 394 638</u> | <u>2 279 376</u>                | <u>115 262</u>         |
| <b>Off-balance-sheet financial instruments</b>                          |                  |                  |                 |                  |                                 |                        |
| Guarantees <sup>(3)</sup>                                               | <u>(156 526)</u> | <u>(152 544)</u> | <u>3 982</u>    | <u>(219 657)</u> | <u>(254 999) <sup>(4)</sup></u> | <u>(35 342)</u>        |
|                                                                         | <u>(156 526)</u> | <u>(152 544)</u> | <u>3 982</u>    | <u>(219 657)</u> | <u>(254 999)</u>                | <u>(35 342)</u>        |
|                                                                         |                  |                  | <u>147 430</u>  |                  |                                 | <u>14 536</u>          |

- (1) The Corporation accounted for low-yield or zero-yield loans, shares and units, less the accumulated provision for losses, at a value higher than their fair value. The gap between the book value (\$1.1 billion) and the fair value (\$737.0 million) is not due to reduced sustainable value but stems rather from the discounting of these loans, shares and units. The Corporation accounts for the latter at cost, given that the Québec government pays it an interest contribution in order to offset the low or zero yield on these assets.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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### 24. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (cont'd)

- (2) The fair market value of financial instruments was modified compared with that shown in the financial statements of March 31, 2004 in order to take into account a new financial instrument, namely, the accumulated provision for losses recoverable from the Québec government, following the attainment of new information and experience acquired in the establishment of fair values.
- (3) Guarantees are classified as an off-balance-sheet financial instrument. However, the book value of guarantees, which corresponds to the amount of the accumulated provision for losses on guarantees, is part of the financial instruments shown on the Corporation's balance sheet.
- (4) This amount was reduced by \$142.6 million compared with that shown in the financial statements of March 31, 2004, due to the changes made to the method of evaluating fair value to take additional particularities into account.

The fair value of balance-sheet and off-balance-sheet financial instruments was estimated using the following methods and assumptions:

#### **Cash, outstanding cheques less cash, temporary investments, short-term loans, other assets and other liabilities**

Given the short-term maturities of cash, outstanding cheques less cash, temporary investments with maturities not exceeding three months following the date of acquisition, short-term loans and other assets and liabilities, their fair value is considered to be equivalent to the book value.

The fair value of temporary investments with maturities exceeding three months following the date of acquisition is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

The fair value of due and accrued interest maturing in more than three months is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

#### **Investments**

The fair value of investments in securities is based on market prices. The fair value of receivable notes from the Government of Québec is estimated by discounting cash flows, using interest rates prevailing on the market for investments with similar conditions and credit risks.

#### **Loans**

The fair value of the loans portfolio is based on the evaluation of the interest rate risk and the credit risk. The fair value of fixed-rate, fixed-repayment loans is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for loans with similar conditions and credit risks. The fair value of variable-rate loans or loans with rates that are revised frequently is deemed to be equal to the net book value. The fair value of variable-repayment loans cannot be estimated with a reasonable effort, considering the uncertainty regarding the amounts that will be repaid. Consequently, the fair value is considered equal to the net book value. For doubtful loans, the fair value is deemed to be equal to the net book value, in accordance with the valuation methods described in note 2 under "Accumulated provision for losses."

**INVESTISSEMENT QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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**24. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (cont'd)****Shares and units**

The fair value of shares and units is based on market prices when they are available. The fair value of preferred shares with an established redemption date and that of fixed-rate, fixed-repayment preferred units of cooperatives is estimated by discounting cash flows, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for shares and units with similar conditions and credit risks. In the case of the other equity securities that are not traded on organized markets, the fair value, since it cannot be estimated with a reasonable effort, is deemed to be equivalent to the net book value.

**Accumulated provision for losses recoverable from the Québec government**

The fair value of the accumulated provision for losses recoverable from the Québec government is based on the evaluation of the interest rate risk and the credit risk. The fair value of the accumulated provision for losses recoverable from the Québec government is estimated by discounting cash flows, which correspond to anticipated losses on financing operations, using the interest rates of the Québec government and taking into account the history of the Corporation's losses for financing operations with similar conditions and credit risks.

**Stock options**

The fair value of stock options is based on market prices when they are available. In the case of options that are not traded on organized markets, the fair value is based on the book value of the company concerned.

**Futures contracts**

The fair value of futures contracts is based on market prices.

**Interest contributions from the Québec government**

The fair value of interest contributions from the Government of Québec is based on the evaluation of the interest rate risk and the credit risk. The fair value of interest contributions from the Government of Québec is estimated by discounting cash flows, using the interest rates of the Government of Québec.

**Loans**

The fair value of fixed-rate long-term loans is based on market prices for debt instruments with similar conditions and credit risks. The fair value of variable-rate long-term loans is deemed to be equal to the net book value.

**Guarantees**

The fair value of the guarantees portfolio is based on the evaluation of the interest rate risk and the credit risk. The fair value of guarantees is estimated by discounting guarantee disbursements and fees for anticipated guarantees, using risk-free interest rates prevailing on the market and taking into account the history of the Corporation's losses for guarantees with similar conditions and credit risks. For guarantees pertaining to insolvent companies or companies that are likely to become insolvent in the short term, the fair value corresponds to the accumulated provision for losses, in accordance with the valuation methods described in note 2 under "Accumulated provision for losses."



## INVESTISSEMENT QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2005

(in thousands of dollars)

**25. INTEREST RATE SENSITIVITY POSITION**

The maturities presented below show the situation, as at March 31, 2005, regarding the sensitivity of the Corporation's balance sheet to interest rate fluctuations.

|                                                                         |                  |                       |                        |                      |                 |                                          | 2005      |
|-------------------------------------------------------------------------|------------------|-----------------------|------------------------|----------------------|-----------------|------------------------------------------|-----------|
|                                                                         | Variable<br>Rate | Less Than<br>3 Months | From 3 to<br>12 Months | From 1 to<br>5 Years | Over<br>5 Years | Not<br>Sensitive<br>to Interest<br>Rates | Total     |
| <b>Balance-sheet<br/>financial<br/>instruments</b>                      |                  |                       |                        |                      |                 |                                          |           |
| <b>Assets</b>                                                           |                  |                       |                        |                      |                 |                                          |           |
| Temporary investments                                                   |                  | 9 390                 | 198                    |                      |                 |                                          | 9 588     |
| Effective interest rate                                                 |                  | 2.5 %                 | 2.5 %                  |                      |                 |                                          |           |
| Investments                                                             |                  |                       | 1 527                  | 1 655 427            | 6 448           | 67 844                                   | 1 731 246 |
| Effective interest rate                                                 |                  |                       | 5.6 %                  | 4.4 %                | 5.1 %           |                                          |           |
| Interests free loans                                                    |                  | 2 550                 | 21 609                 | 162 257              | 227 903         | 160 250                                  | 574 569   |
| Other loans, shares and units                                           | 180 214          | 816                   | 154                    | 35 227               | 106 398         | 671 516                                  | 994 325   |
| Effective interest rate                                                 |                  | 5.8 %                 | 9.4 %                  | 5.4 %                | 7.9 %           |                                          |           |
| Accumulated provision for losses on loans, shares and units             |                  |                       |                        |                      |                 | (488 214)                                | (488 214) |
| Accumulated provision for losses recoverable from the Québec government |                  |                       |                        |                      |                 | 558 956                                  | 558 956   |
| Other assets                                                            |                  |                       |                        |                      |                 | 136 861                                  | 136 861   |
|                                                                         | 180 214          | 12 756                | 23 488                 | 1 852 911            | 340 749         | 1 107 213                                | 3 517 331 |
| <b>Liabilities and equity</b>                                           |                  |                       |                        |                      |                 |                                          |           |
| Outstanding cheques less cash                                           |                  |                       |                        |                      |                 | 904                                      | 904       |
| Interest-free debt                                                      |                  |                       | 1 600                  | 1 789 200            | 2 400           |                                          | 1 793 200 |
| Interest-bearing debt                                                   |                  | 1 042 520             | 100 000                |                      | 110 197         |                                          | 1 252 717 |
| Effective interest rate                                                 |                  | 2.7 %                 | 2.8 %                  |                      | 5.6 %           |                                          |           |
| Other liabilities                                                       |                  |                       |                        |                      |                 | 191 446                                  | 191 446   |
| Equity                                                                  |                  |                       |                        |                      |                 | 279 064                                  | 279 064   |
|                                                                         |                  | 1 042 520             | 101 600                | 1 789 200            | 112 597         | 471 414                                  | 3 517 331 |
| Sensitivity gap (Amounts carried forward)                               | 180 214          | (1 029 764)           | (78 112)               | 63 711               | 228 152         | 635 799                                  |           |

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 25. INTEREST RATE SENSITIVITY POSITION (cont'd)

|                                                        |                  |                       |                        |                      |                 |                                          | 2005               |
|--------------------------------------------------------|------------------|-----------------------|------------------------|----------------------|-----------------|------------------------------------------|--------------------|
|                                                        | Variable<br>Rate | Less Than<br>3 Months | From 3 to<br>12 Months | From 1 to<br>5 Years | Over<br>5 Years | Not<br>Sensitive<br>to Interest<br>Rates | Total              |
| Sensitivity gap<br>(Amounts brought<br>forward)        | 180 214          | (1 029 764)           | (78 112)               | 63 711               | 228 152         | 635 799                                  |                    |
| <b>Off-balance-sheet<br/>financial<br/>instruments</b> |                  |                       |                        |                      |                 |                                          |                    |
| Guarantees                                             |                  |                       |                        |                      |                 | 1 570 665                                | 1 570 655          |
| Sensitivity gap                                        |                  |                       |                        |                      |                 | (1 570 655)                              | (1 570 655)        |
| <b>Total</b>                                           | <b>180 214</b>   | <b>(1 029 764)</b>    | <b>(78 112)</b>        | <b>63 711</b>        | <b>228 152</b>  | <b>(934 856)</b>                         | <b>(1 570 655)</b> |
|                                                        |                  |                       |                        |                      |                 |                                          | 2004               |
|                                                        | Variable<br>Rate | Less Than<br>3 Months | From 3 to<br>12 Months | From 1 to<br>5 Years | Over<br>5 Years | Not<br>Sensitive<br>to Interest<br>Rates | Total              |
| Balance-sheet<br>financial<br>instruments              | 300 273          | (1 060 626)           | (90 843)               | 64 478               | 258 242         | 528 476                                  |                    |
| Off-balance-sheet<br>financial<br>instruments          |                  |                       |                        |                      |                 | (1 260 404)                              | (1 260 404)        |
| <b>Total</b>                                           | <b>300 273</b>   | <b>(1 060 626)</b>    | <b>(90 843)</b>        | <b>64 478</b>        | <b>258 242</b>  | <b>(731 928)</b>                         | <b>(1 260 404)</b> |

# INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 26. CONCENTRATION OF CREDIT RISK

|                                                                             | 2005                                                                                |                                                                  |                                                                                           | 2004                                                                                |                                                                  |                                                                                           |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
|                                                                             | Loans,<br>Shares<br>and Units<br>Less the<br>Accumulated<br>Provision<br>for Losses | Guarantees<br>Less the<br>Accumulated<br>Provision<br>for Losses | Accumulated<br>Provision<br>for Losses<br>Recoverable<br>from the<br>Québec<br>Government | Loans,<br>Shares<br>and Units<br>Less the<br>Accumulated<br>Provision<br>for Losses | Guarantees<br>Less the<br>Accumulated<br>Provision<br>for Losses | Accumulated<br>Provision<br>for Losses<br>Recoverable<br>from the<br>Québec<br>Government |
| <b>Per sector of activity:</b>                                              |                                                                                     |                                                                  |                                                                                           |                                                                                     |                                                                  |                                                                                           |
| Primary sector companies                                                    | 14 386                                                                              | 6 529                                                            | 29 397                                                                                    | 11 996                                                                              | 7 396                                                            | 83 421                                                                                    |
| Secondary sector companies                                                  |                                                                                     |                                                                  |                                                                                           |                                                                                     |                                                                  |                                                                                           |
| Transportation equipment                                                    | 167 032                                                                             | 1 220 812                                                        | 59 851                                                                                    | 182 478                                                                             | 875 825                                                          | 79 316                                                                                    |
| Paper                                                                       | 265 131                                                                             | 2 398                                                            | 189 208                                                                                   | 310 542                                                                             | 4 516                                                            | 113 982                                                                                   |
| Primary processing metals and metal products                                | 342 567                                                                             | 19 791                                                           | 31 112                                                                                    | 341 535                                                                             | 19 013                                                           | 37 723                                                                                    |
| Others                                                                      | 171 137                                                                             | 128 124                                                          | 142 908                                                                                   | 199 714                                                                             | 137 980                                                          | 128 614                                                                                   |
|                                                                             | 945 867                                                                             | 1 371 125                                                        | 423 079                                                                                   | 1 034 269                                                                           | 1 037 334                                                        | 359 635                                                                                   |
| Tertiary sector companies                                                   | 120 427                                                                             | 193 001                                                          | 106 480                                                                                   | 119 711                                                                             | 215 674                                                          | 119 695                                                                                   |
|                                                                             | 1 080 680                                                                           | 1 570 655                                                        | 558 956                                                                                   | 1 165 976                                                                           | 1 260 404                                                        | 562 751                                                                                   |
| <b>With the Québec government:</b>                                          |                                                                                     |                                                                  |                                                                                           |                                                                                     |                                                                  |                                                                                           |
| Financing operations for which losses are refunded by the Québec government | 1 035 230                                                                           | 1 387 138                                                        | 558 956                                                                                   | 1 114 161                                                                           | 1 049 961                                                        | 562 751                                                                                   |

## 27. FINANCING COMMITMENTS

The financing commitments made by the Corporation in the regular course of its activities are presented in the table below and are grouped into two categories. The first represents financing agreements authorized by the Corporation which are not yet accepted by clients. The second includes financing agreements accepted by clients, or amounts not disbursed on loans, shares and units, amounts for which disbursement has not been authorized for financial contributions, and amounts which have not yet been used for guarantees.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

### 27. FINANCING COMMITMENTS (cont'd)

The amounts of the commitments are as follows:

|                                                                                       | 2005                                                                                         |                                                                                   |                  | 2004<br>(restated)              |
|---------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------|---------------------------------|
|                                                                                       | Losses Not<br>Refunded and<br>Contributions<br>Not<br>Assumed by<br>the Québec<br>Government | Losses<br>Refunded and<br>Contributions<br>Assumed by<br>the Québec<br>Government | Total            | Total                           |
| <b>Commitments on authorized financing<br/>agreements not yet accepted by clients</b> |                                                                                              |                                                                                   |                  |                                 |
| Loans                                                                                 | 6 930                                                                                        | 159 905                                                                           | 166 835          | 318 897                         |
| Guarantees                                                                            | 13 942                                                                                       | 1 051 185                                                                         | 1 065 127        | 516 911                         |
| Financial contributions                                                               | 2 213                                                                                        | 40 070                                                                            | 42 283           | 90 500                          |
|                                                                                       | <u>23 085</u>                                                                                | <u>1 251 160</u>                                                                  | <u>1 274 245</u> | <u>926 308</u>                  |
| <b>Commitments on financing agreements<br/>accepted by clients</b>                    |                                                                                              |                                                                                   |                  |                                 |
| Loans                                                                                 | 10 165                                                                                       | 229 686                                                                           | 239 851          | 271 826                         |
| Guarantees                                                                            | 68 212                                                                                       | 80 236                                                                            | 148 448          | 328 978 <sup>(1)</sup>          |
| Financial contributions                                                               | 125 148                                                                                      | 304 055                                                                           | 429 203          | 406 335                         |
|                                                                                       | <u>203 525</u>                                                                               | <u>613 977</u>                                                                    | <u>817 502</u>   | <u>1 007 139</u>                |
|                                                                                       | <u>226 610</u>                                                                               | <u>1 865 137</u>                                                                  | <u>2 091 747</u> | <u>1 933 447</u> <sup>(1)</sup> |

The amount of commitments denominated in US dollars totalled \$0.3 million in Canadian dollars as at March 31, 2005 (\$0.4 million as at March 31, 2004).

(1) This amount was increased by \$178.0 million compared with the financial statements of March 31, 2004, due to an inaccuracy detected after these financial statements were published.

### 28. OTHER COMMITMENTS

The Corporation has undertaken to pay fees of \$17.6 million as at March 31, 2005 (\$11.0 million as at March 31, 2004) to financial intermediaries for the closing of immigrant investor files.

In addition, as at March 31, 2005, the Corporation concluded agreements in principle with the FIER-Regions, under which it undertakes to invest an amount of up to \$20.0 million.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

### 29. PENSION PLANS

The employees of Investissement Québec subscribe to the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM). These are inter-company defined-benefit plans that include retirement and death guarantees. Investissement Québec's obligations toward these government plans are limited to its contributions as an employer. Investissement Québec's contributions charged to the statement of income for the fiscal year amount to \$0.9 million (\$0.9 million for the fiscal year ended March 31, 2004; \$0.8 million for the fiscal year ended March 31, 2003).

The employer's responsibilities toward the supplementary pension plans consist in fully assuming benefits when the beneficiary of the plan retires. Thus, no contribution is paid by the employees or the employer. As at March 31, 2005, the employer's obligations stood at \$0.1 million (\$0.1 million as at March 31, 2004) and appear under "Other liabilities". The Corporation did not charge any cost to the results for the fiscal year ended March 31, 2005 (\$0.1 million for the fiscal year ended March 31, 2004). The significant actuarial assumptions used by the Corporation to evaluate its obligations regarding benefits are as follows: the expected rate of return for the plan is 6.75% and the growth rate for compensation is 4.00%.

### 30. SICK LEAVE AND VACATIONS PAYABLE

|                              | 2005           | 2004           |
|------------------------------|----------------|----------------|
| Balance at beginning of year | 9 863          | 9 060          |
| Expense for the year         | 2 133          | 2 891          |
| Amount paid during the year  | <u>(2 006)</u> | <u>(2 088)</u> |
| Balance at end of year       | <u>9 990</u>   | <u>9 863</u>   |

### 31. CONTINGENCIES

Under decree 1393-2001 issued by the Québec government on November 21, 2001, 9109-3294 Québec inc., a subsidiary of Investissement Québec, acquired a piece of contaminated land in December 2001 for the price of one dollar. Investissement Québec will guarantee, in part, the environmental liability of this land. The Corporation estimates that the land decontamination and clean-up cost, which it must assume, may reach \$11.7 million. However, under its incorporating legislation, any losses stemming from this contingent liability will be borne by the Québec government.

During a previous year, the Corporation recorded a gain on disposal of shares from an option, following the sale of all the shares issued by a company. As part of this transaction, the Corporation agreed to compensate the managing shareholders for damages or losses which they may incur due to the guarantees that they gave to the buyer. The maximum amount that the Corporation could be held to pay in this regard is \$0.6 million. This commitment will end no later than January 15, 2007.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are currently under way. In the Corporation's opinion, the outcome of these proceedings will not have a significant impact on its financial position or the results of its operations.

### 32. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all departments and special funds as well as to all agencies and corporations that are controlled directly or indirectly by the Québec government or are subject to either joint control or significant common influence by the Québec government. The Corporation's business transactions with these related parties were carried out during the normal course of its activities and under usual business conditions. All these transactions, accounted for according to their exchange value, are shown separately in the financial statements.

### 33. COMPARATIVE FIGURES

Certain figures from fiscal 2003 and 2004 have been reclassified to conform to the presentation adopted in fiscal 2005.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 34. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

|                                                                                           | 2005                                             |                                           |                 |                       |                                                           |                     | 2004<br>(restated)<br>(Note 3) |
|-------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------|-----------------|-----------------------|-----------------------------------------------------------|---------------------|--------------------------------|
|                                                                                           | Investissement<br>Québec<br>Non-<br>Consolidated | IQ<br>Immigrants<br>Investisseurs<br>inc. | IQ FIER<br>inc. | Other<br>Subsidiaries | Eliminations<br>and reclassi-<br>fications <sup>(1)</sup> | Cumulative<br>Total | Cumulative<br>Total            |
| <b>Assets</b>                                                                             |                                                  |                                           |                 |                       |                                                           |                     |                                |
| Cash                                                                                      |                                                  | 272                                       | 3               | 4                     | (279)                                                     |                     | 2 469                          |
| Temporary<br>investments                                                                  |                                                  | 9 588                                     |                 |                       |                                                           | 9 588               | 4 990                          |
| Investments                                                                               |                                                  | 1 730 962                                 | 198             | 86                    |                                                           | 1 731 246           | 1 038 376                      |
| Loans, less<br>accumulated<br>provision<br>for losses                                     | 744 925                                          |                                           |                 |                       |                                                           | 744 925             | 801 978                        |
| Shares, less<br>accumulated<br>provision<br>for losses                                    | 333 011                                          |                                           |                 |                       |                                                           | 333 011             | 342 722                        |
| Units, less<br>accumulated<br>provision<br>for losses                                     | 2 744                                            |                                           |                 |                       |                                                           | 2 744               | 21 276                         |
| Accumulated<br>provision<br>for losses<br>recoverable<br>from the<br>Québec<br>government | 558 956                                          |                                           |                 |                       |                                                           | 558 956             | 562 751                        |
| Investments in<br>subsidiaries,<br>valued under<br>the equity<br>accounting<br>method     | 18 523                                           |                                           |                 |                       | (18 523)                                                  |                     |                                |
| Advances to<br>subsidiaries                                                               | 164                                              |                                           |                 |                       | (164)                                                     |                     |                                |
| Other assets                                                                              | 64 388                                           | 72 814                                    |                 | 570                   | (911)                                                     | 136 861             | 78 806                         |
|                                                                                           | 1 722 711                                        | 1 813 636                                 | 201             | 660                   | (19 877)                                                  | 3 517 331           | 2 853 368                      |

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**34. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)**

|                                                                      | 2005                                             |                                           |                 |                       |                                                           | 2004<br>(restated)<br>(Note 3) |                     |
|----------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------|-----------------|-----------------------|-----------------------------------------------------------|--------------------------------|---------------------|
|                                                                      | Investissement<br>Québec<br>Non-<br>Consolidated | IQ<br>Immigrants<br>Investisseurs<br>inc. | IQ FIER<br>inc. | Other<br>Subsidiaries | Eliminations<br>and reclassi-<br>fications <sup>(1)</sup> | Cumulative<br>Total            | Cumulative<br>Total |
| <b>Liabilities and equity</b>                                        |                                                  |                                           |                 |                       |                                                           |                                |                     |
| <b>Liabilities</b>                                                   |                                                  |                                           |                 |                       |                                                           |                                |                     |
| Outstanding<br>cheques less<br>cash                                  |                                                  |                                           |                 |                       | 904                                                       | 904                            |                     |
| Bank overdraft                                                       | 1 183                                            |                                           |                 |                       | (1 183)                                                   |                                |                     |
| Short-term debt                                                      | 235 900                                          |                                           |                 |                       |                                                           | 235 900                        | 370 900             |
| Long-term debt                                                       | 1 016 817                                        | 1 793 200                                 |                 |                       |                                                           | 2 810 017                      | 2 003 146           |
| Due and accrued<br>interest on<br>loans                              | 12 564                                           |                                           |                 |                       |                                                           | 12 564                         | 12 267              |
| Advances from<br>the parent<br>company                               |                                                  |                                           |                 | 164                   | (164)                                                     |                                |                     |
| Accumulated<br>provision<br>for losses on<br>guarantees              | 156 526                                          |                                           |                 |                       |                                                           | 156 526                        | 219 657             |
| Other liabilities                                                    | 20 657                                           | 1 623                                     | 417             | 570                   | (911)                                                     | 22 356                         | 20 170              |
|                                                                      | 1 443 647                                        | 1 794 823                                 | 417             | 734                   | (1 354)                                                   | 3 238 267                      | 2 626 140           |
| <b>Equity</b>                                                        |                                                  |                                           |                 |                       |                                                           |                                |                     |
| Initial equity and<br>share capital                                  | 32 944                                           | 1                                         | 1               | 3                     | (5)                                                       | 32 944                         | 32 944              |
| Surplus (deficit)                                                    | 246 120                                          | 18 812                                    | (217)           | (77)                  | (18 518)                                                  | 246 120                        | 194 284             |
|                                                                      | 279 064                                          | 18 813                                    | (216)           | (74)                  | (18 523)                                                  | 279 064                        | 227 228             |
|                                                                      | 1 722 711                                        | 1 813 636                                 | 201             | 660                   | (19 877)                                                  | 3 517 331                      | 2 853 368           |
| <b>Guarantees, less<br/>accumulated<br/>provision<br/>for losses</b> | 1 570 655                                        |                                           |                 |                       |                                                           | 1 570 655                      | 1 260 404           |

(1) Eliminations related to balances and business-to-business transactions and reclassifications.

## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 35. STATEMENT OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

|                                                                                        | 2005                                             |                                           |                 |                       |                                                           | 2004                |                     |
|----------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------|-----------------|-----------------------|-----------------------------------------------------------|---------------------|---------------------|
|                                                                                        | Investissement<br>Québec<br>Non-<br>Consolidated | IQ<br>Immigrants<br>Investisseurs<br>inc. | IQ FIER<br>inc. | Other<br>Subsidiaries | Eliminations<br>and reclassi-<br>fications <sup>(1)</sup> | Cumulative<br>Total | Cumulative<br>Total |
| <b>Income from<br/>operations</b>                                                      |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Interest income<br>and interest<br>contribution<br>from the Québec<br>government       | 66 587                                           | 54 518                                    |                 |                       |                                                           | 121 105             | 97 354              |
| Guarantee fees                                                                         | 14 636                                           |                                           |                 |                       |                                                           | 14 636              | 12 525              |
| Risk premiums                                                                          |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Stock options                                                                          | 2 409                                            |                                           |                 |                       |                                                           | 2 409               | 4 150               |
| Share-in-<br>earnings<br>premiums and<br>others                                        | 3 814                                            |                                           |                 |                       |                                                           | 3 814               | 3 055               |
| Commitment<br>fees                                                                     | 6 613                                            |                                           |                 |                       |                                                           | 6 613               | 7 666               |
| Fees –Affiliated<br>company,<br>IQ Immigrants<br>Investisseurs inc.                    | 1 024                                            |                                           |                 |                       | (1 024)                                                   |                     |                     |
| Other income                                                                           | 21 635                                           | 5 451                                     |                 | 5                     |                                                           | 27 091              | 5 379               |
|                                                                                        | 116 718                                          | 59 969                                    |                 | 5                     | (1 024)                                                   | 175 668             | 130 129             |
| <b>Expenses from<br/>operations</b>                                                    |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Interest charges                                                                       | 35 884                                           |                                           |                 |                       |                                                           | 35 884              | 36 951              |
| Financial<br>contributions                                                             | 30 814                                           | 20 968                                    |                 | 851                   |                                                           | 52 633              | 56 137              |
| Financial<br>contributions<br>assumed by the<br>Québec govern-<br>ment                 | (30 814)                                         |                                           |                 | (851)                 |                                                           | (31 665)            | (45 382)            |
| Fees to financial<br>intermediaries                                                    |                                                  | 26 464                                    |                 |                       |                                                           | 26 464              | 17 747              |
| Fees for the<br>management<br>of financial<br>contribution<br>files –Parent<br>company |                                                  | 1 180                                     |                 |                       | (1 180)                                                   |                     |                     |
| Other expenses                                                                         | 2 480                                            | 310                                       | 51              |                       | 196                                                       | 3 037               | 1 972               |
|                                                                                        | 38 364                                           | 48 922                                    | 51              |                       | (984)                                                     | 86 353              | 67 425              |
| <b>Operating income<br/>before provision</b>                                           |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Amounts carried<br>forward                                                             | 78 354                                           | 11 047                                    | (51)            | 5                     | (40)                                                      | 89 315              | 62 704              |



## INVESTISSEMENT QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

## 35. STATEMENT OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

|                                                                            | 2005                                             |                                           |                 |                       |                                                           |                     | 2004                |
|----------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------|-----------------|-----------------------|-----------------------------------------------------------|---------------------|---------------------|
|                                                                            | Investissement<br>Québec<br>Non-<br>Consolidated | IQ<br>Immigrants<br>Investisseurs<br>inc. | IQ FIER<br>inc. | Other<br>Subsidiaries | Eliminations<br>and reclassi-<br>fications <sup>(1)</sup> | Cumulative<br>Total | Cumulative<br>Total |
| <b>Operating income<br/>before provision</b>                               |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Amounts brought<br>forward                                                 | 78 354                                           | 11 047                                    | (51)            | 5                     | (40)                                                      | 89 315              | 62 704              |
| <b>Provision</b>                                                           |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Provision for<br>losses                                                    | 165 742                                          |                                           |                 |                       |                                                           | 165 742             | 273 023             |
| Provision for<br>losses<br>recoverable<br>from the<br>Québec<br>government | (146 542)                                        |                                           |                 |                       |                                                           | (146 542)           | (265 415)           |
|                                                                            | 19 200                                           |                                           |                 |                       |                                                           | 19 200              | 7 608               |
| <b>Operating<br/>income</b>                                                | 59 154                                           | 11 047                                    | (51)            | 5                     | (40)                                                      | 70 115              | 55 096              |
| <b>Administrative<br/>expenses</b>                                         |                                                  |                                           |                 |                       |                                                           |                     |                     |
| Administrative<br>expenses                                                 | 39 795                                           | 304                                       | 166             |                       | (40)                                                      | 40 225              | 40 589              |
| Administration<br>fees - Québec<br>government                              | (21 946)                                         |                                           |                 |                       |                                                           | (21 946)            | (26 811)            |
|                                                                            | 17 849                                           | 304                                       | 166             |                       | (40)                                                      | 18 279              | 13 778              |
| <b>Net income<br/>before share<br/>of earnings of<br/>subsidiaries</b>     | 41 305                                           | 10 743                                    | (217)           | 5                     |                                                           | 51 836              | 41 318              |
| Share of earnings<br>of subsidiaries                                       | 10 531                                           |                                           |                 |                       | (10 531)                                                  |                     |                     |
| <b>Net income</b>                                                          | 51 836                                           | 10 743                                    | (217)           | 5                     | (10 531)                                                  | 51 836              | 41 318              |

(1) Eliminations related to balances and business-to-business transactions and reclassifications.

**INVESTISSEMENT QUÉBEC****DECLARATION OF RESPONSIBILITY FOR FINANCIAL INFORMATION**

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The preparation and presentation of the consolidated financial statements of Investissement Québec and other information disclosed in this annual report are the responsibility of management.

The consolidated financial statements have been drawn up in accordance with Canadian generally accepted accounting principles.

The financial information disclosed in the 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 Board of Directors, which is responsible for monitoring the manner in which management fulfills its responsibilities regarding financial information, approved the financial statements. The Board is assisted in carrying out its mandate by the Audit and Human Resources Committee. This Committee meets with management and the auditor, reviews the financial statements, and recommends their approval to the Board. The Audit and Human Resources Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations, particularly the Financial Administration Act.

Jean Houde  
President and Chief Executive Officer

André Côté  
Vice-President, Administration

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**AUDITOR'S REPORT**

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To the National Assembly,

I have audited the consolidated balance sheet of Investissement Québec as at March 31, 2005, and the consolidated statements of income, 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 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 my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005, 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, given the retroactive application of the change made to stock option premiums and explained in note 3, these principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec City, May 30, 2005

**IQ FIER INC.**  
(R.S.Q., c. I-16.1)

**BALANCE SHEET**

(in thousands of dollars)

|                                             | Balance sheet<br>a March 31,<br>2005 | Opening<br>balance sheet<br>at January 19,<br>2005 |
|---------------------------------------------|--------------------------------------|----------------------------------------------------|
| <b>ASSETS</b>                               |                                      |                                                    |
| Cash on hand                                | 3                                    | 1                                                  |
| Investments, on an equity basis (Note 4)    | 198                                  |                                                    |
|                                             | <u>201</u>                           | <u>1</u>                                           |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b> |                                      |                                                    |
| <b>LIABILITIES</b>                          |                                      |                                                    |
| Fees payable to parent company              | 366                                  |                                                    |
| Other accounts payable                      | 51                                   |                                                    |
|                                             | <u>417</u>                           |                                                    |
| <b>SHAREHOLDER'S QUITTY</b>                 |                                      |                                                    |
| Capital stock (Note 5)                      | 1                                    | 1                                                  |
| Deficit                                     | (217)                                |                                                    |
|                                             | <u>(216)</u>                         | <u>1</u>                                           |
|                                             | <u>201</u>                           | <u>1</u>                                           |

**INVESTMENT COMMITMENTS** (Note 7)

The notes are an integral part of the financial statements.

For the Board of Directors,  
Jean Houde, Chairman of the Board  
Lucien Biron, Administrator

**IQ FIER INC.**STATEMENT OF INCOME AND DEFICIT  
for the period from January 19 to March 31, 2005  
(in thousand of dollars)

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|                                      |                     |
|--------------------------------------|---------------------|
| Administrative fees – Parent company | (166)               |
| Other                                | <u>(51)</u>         |
| <b>NET LOSS AND CLOSING DEFICIT</b>  | <b><u>(217)</u></b> |

The notes are an integral part of the financial statements.

**IQ FIER INC.****NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2005

(in thousand of dollars)

**1. CONSTITUTION AND NATURE OF ACTIVITIES**

IQ FIER inc., created on January 7, 2005 under Part 1A of the Québec 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, is not subject to income tax. Its purpose is to invest in various funds related to the Regional Economic Intervention Fund which are designed to help companies obtain funding (cash or cash equivalents) in the start-up and development phases.

Under Order-in-Council 1171-2004, IQ FIER inc. can invest an amount of up to \$210 million as follows: up to \$90 million in the FIER-Partenaires mutual fund, up to \$78 million to support the creation of FIER-Régions and up to \$42 million to set up Fonds-Soutien. The amounts invested by the company come from the parent company which is mandated to receive them from the Ministère des Finances.

**2. ACCOUNTING POLICIES**

The Corporation's financial statements were prepared in accordance with the accounting principles generally recognized in Canada. Management must make estimates and assumptions influencing the amounts and other elements of information presented in the financial statements.

**3. CASH FLOW STATEMENT**

No cash flow statement has been presented since the main operating, investment and financing activities are obvious from reading the other financial statements and a separate cash flow statement would provide no additional information.

**4. INVESTMENTS, ON AN EQUITY BASIS**

|                                                 | March 31,<br>2005 | January 19,<br>2005 |
|-------------------------------------------------|-------------------|---------------------|
| FIER Partenaires inc. – 50% of voting shares    | 1                 |                     |
| FIER Partenaires, s.e.c. – 50% of voting shares | 197               |                     |
|                                                 | <u>198</u>        |                     |

**5. CAPITAL STOCK**

Authorized

An unlimited number of common shares without nominal 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 company and category "B" shareholders.

Category "A", voting and participating.

|                                      | March 31,<br>2005 | January 19,<br>2005 |
|--------------------------------------|-------------------|---------------------|
| Issued and paid<br>10 class A shares | <u>1</u>          | <u>1</u>            |

**IQ FER INC.**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousand of dollars)

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**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Since they mature in the near future, the fair value of cash and liabilities is considered equivalent to their book value.

**7. INVESTMENT COMMITMENTS**

At March 31, 2005, the company had concluded agreements in principal with FIER-Régions under which it committed to investing an amount of up to \$20.0 million.

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**AUDITOR'S REPORT**

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To IQ FIER inc. shareholders

I have audited the balance sheet of IQ FIER inc. as at March 31, 2005 and the statement of income and deficit for the year then ended. These financial statements are the responsibility of IQ FIER management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management

In my opinion, these financial statements present, in all material respects, IQ FIER's financial position as at March 31, 2005 and the results of its operations for the year then ended, in accordance with accounting principles that are generally accepted in Canada.

Renaud Lachance, CA  
Auditor General of Québec

Québec, May 30, 2005

**IQ IMMIGRANTS INVESTISSEURS INC.**  
(R.S.Q., c. I-16.1)

**BALANCE SHEET**  
as at March 31  
(in thousands of dollars)

|                                                                 | <u>2005</u>      | <u>2004</u>      |
|-----------------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                                   |                  |                  |
| Cash on hand                                                    | 272              | 393              |
| Short-term investments (Note 3)                                 | 9 588            | 4 990            |
| Investments (Note 4)                                            | 1 730 962        | 1 038 353        |
| Interest and dividends receivable on investments                | 1 805            | 1 117            |
| Deferred financial intermediaries' fees                         | <u>71 009</u>    | <u>50 106</u>    |
|                                                                 | <u>1 813 636</u> | <u>1 094 959</u> |
| <b>LIABILITIES AND EQUITY</b>                                   |                  |                  |
| <b>LIABILITIES</b>                                              |                  |                  |
| Long-term borrowings (Note 6)                                   | 1 793 200        | 1 085 200        |
| Fees payable to parent company                                  | 545              | 304              |
| Fees payable to related corporation,<br>La Financière du Québec |                  | 204              |
| Financial intermediaries' fees payable                          | 554              | 702              |
| Other accounts payable                                          | <u>524</u>       | <u>479</u>       |
|                                                                 | <u>1 794 823</u> | <u>1 086 889</u> |
| <b>EQUITY</b>                                                   |                  |                  |
| Capital stock (Note 7)                                          | 1                | 1                |
| Retained earnings                                               | <u>18 812</u>    | <u>8 069</u>     |
|                                                                 | <u>18 813</u>    | <u>8 070</u>     |
|                                                                 | <u>1 813 636</u> | <u>1 094 959</u> |

**COMMITMENTS** (Note 13)

The notes are an integral part of the financial statements.

For the Board of Directors,  
André Côté, Chairman of the Board  
Me Gilles Montplaisir, Secretary

**IQ IMMIGRANTS INVESTISSEURS INC.**

STATEMENT OF INCOME AND RETAINED EARNINGS  
for the fiscal year ended March 31  
(in thousands of dollars)

|                                               | <u>2005</u>   | <u>2004</u>   | <u>2003</u>   |
|-----------------------------------------------|---------------|---------------|---------------|
| <b>OPERATING INCOME</b>                       |               |               |               |
| Interest income (Note 8)                      | <u>59 969</u> | <u>35 029</u> | <u>16 724</u> |
| <b>OPERATING EXPENDITURES</b>                 |               |               |               |
| Financial intermediaries' fees                | 26 464        | 17 747        | 10 435        |
| Non-refundable financial contributions        | 20 968        | 10 755        | 2 363         |
| Financial contribution management fees        |               |               |               |
| – Parent company                              | 1 180         | 834           | 522           |
| Other                                         | <u>310</u>    | <u>87</u>     | <u>5</u>      |
|                                               | <u>48 922</u> | <u>29 423</u> | <u>13 325</u> |
| <b>OPERATING INCOME</b>                       | <u>11 047</u> | <u>5 606</u>  | <u>3 399</u>  |
| <b>ADMINISTRATIVE FEES</b>                    |               |               |               |
| Administrative fees – Parent company (Note 9) | <u>304</u>    | <u>391</u>    | <u>396</u>    |
| <b>NET INCOME</b>                             | 10 743        | 5 215         | 3 003         |
| Retained earnings (deficit) at the beginning  | <u>8 069</u>  | <u>2 854</u>  | <u>(149)</u>  |
| <b>RETAINED EARNINGS AT THE END</b>           | <u>18 812</u> | <u>8 069</u>  | <u>2 854</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)

|                                                                                                                | 2005         | 2004         | 2003         |
|----------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                                                              |              |              |              |
| Net income                                                                                                     | 10 743       | 5 215        | 3 003        |
| Adjustment for:                                                                                                |              |              |              |
| Amortization of premiums and discounts on investments                                                          | (52 712)     | (30 373)     | (15 112)     |
| Gains on sale of investments                                                                                   | (887)        | (504)        |              |
| Unrealized exchange loss                                                                                       | 629          |              |              |
| Amortization of deferred financial intermediaries fees                                                         | 16 969       | 9 876        | 4 275        |
|                                                                                                                | (25 258)     | (15 786)     | (7 834)      |
| Changes in non-cash items related to operating activities (Note 10)                                            | (754)        | (799)        | 1 139        |
|                                                                                                                | (26 012)     | (16 585)     | (6 695)      |
| <b>CASH FLOWS RELATED TO INVESTMENT ACTIVITIES</b>                                                             |              |              |              |
| Net decrease (increase) of short-term investments maturing more than three months after their acquisition date | (397)        | 69 083       | (69 083)     |
| Acquisition of investment                                                                                      | (740 555)    | (600 019)    | (267 941)    |
| Disposal of investment                                                                                         | 100 916      | 30 524       |              |
| Deferred financial intermediaries' fees                                                                        | (37 872)     | (31 362)     | (24 642)     |
|                                                                                                                | (677 908)    | (531 774)    | (361 666)    |
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>                                                              |              |              |              |
| Long-term borrowings                                                                                           | 721 200      | 556 000      | 338 800      |
| Repayment of long-term borrowings                                                                              | (13 200)     | (6 800)      |              |
| Share issue                                                                                                    |              |              | 1            |
|                                                                                                                | 708 000      | 549 200      | 338 801      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                                    | 4 080        | 841          | (29 560)     |
| Cash and cash equivalents, beginning of year                                                                   | 5 383        | 4 542        | 34 102       |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                                                  | <u>9 463</u> | <u>5 383</u> | <u>4 542</u> |
| <b>CASH AND CASH EQUIVALENTS</b>                                                                               |              |              |              |
| Cash on hand                                                                                                   | 272          | 393          |              |
| Short-term investment maturing within three months                                                             | 9 191        | 4 990        | 4 542        |
|                                                                                                                | <u>9 463</u> | <u>5 383</u> | <u>4 542</u> |

The notes are an integral part of the financial statements.

**IQ IMMIGRANTS INVESTISSEURS INC.****NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2005

(in thousand of dollars)

**1. CONSTITUTION AND NATURE OF ACTIVITIES**

IQ Immigrants Investisseurs inc., 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, is not subject to income tax. It coordinates the collection, management and investment of sums of money belonging to investor immigrants. It assigns the income generated by investment of these amounts and administers a financial assistance program designed for companies, funded from this same investment income.

Section 46 of the Act respecting Investissement Québec and La Financière du Québec states that the parent company shall establish a business 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 September 22, 2004 (Order-in-Council 878-2004) and terminates on March 31, 2007.

**2. MAIN ACCOUNTING POLICIES**

The Corporation's financial statements were prepared in accordance with the accounting principles generally recognized in Canada. Management must make estimates and assumptions influencing the amounts and other elements of information presented in the financial statements.

**Cash and cash equivalents**

Under cash and cash equivalents, the Corporation presents cash and short-term investments maturing within three months' of their acquisition date.

**Investments**

Notes receivable from the Gouvernement du Québec are recorded at cost and purchase discounts are transferred to results using the effective interest method until their maturity.

Other investments are recorded at cost and, where applicable, the discounts and premiums are transferred to results using the straight-line method of discount amortization until their maturity date.

**Financial intermediaries' fees**

The Corporation pays fees to financial intermediaries for canvassing investor immigrants, seeking businesses to recommend for non-refundable financial contributions and closing investor immigrants' files.

Fees related to canvassing investor immigrants and seeking businesses to recommend are posted when the Corporation accepts the financial intervention. Fees related to canvassing investor immigrants are deferred and transferred to results over a period corresponding to the duration of investments, i.e. five years, according to the straight-line method. Fees related to closing the investor immigrants' files are posted the date the file is closed.

**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 the authorizing disbursement of these contributions.

Fees related too analysis and authorization are posted when the Corporation accepts the financial intervention. Fees related to disbursements are recorded when each one is authorized.

**IQ IMMIGRANTS INVESTISSEURS INC.**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousand of dollars)

**2. MAIN ACCOUNTING POLICIES (cont'd)****Non-refundable financial contributions**

Non-refundable financial contributions granted to businesses are posted to results for the fiscal year in which the Corporation authorized the disbursement.

**Administrative fees – Parent company**

The Corporation pays administrative fees to Investissement Québec. These fees represent the share in the expenses of the parent company's support administrative units and the share of certain common costs that are attributable to the Corporation. These fees are recorded on an accrual basis.

**Conversion of currency**

The 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. The revenues and expenditures in foreign currency are, for their part, converted into Canadian dollars at the exchange rate in effect on the date of the transaction.

**3. SHORT-TERM INVESTMENTS**

|                                                                                                                                    | 2005         | 2004         |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Short-term investments maturing within three months of their acquisition date:                                                     |              |              |
| Investment certificates, 2.50% to 2.56%, maturing in April 2005                                                                    | 7 699        | 4 592        |
| Canadian T-bills, 2.43% to 2.48%, maturing between April and June 2005                                                             | 1 492        | 398          |
| Canadian T-bills, maturing more than three months after their acquisition date, 2.43% to 2.56%, maturing between May and July 2005 | 397          |              |
|                                                                                                                                    | <u>9 588</u> | <u>4 990</u> |

**4. INVESTMENTS**

|                                                                                                                                     | 2005             | 2004             |
|-------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Gouvernement du Québec notes receivable, 3.56% to 6.01%, maturing between January 2006 and March 2010, nominal value: \$1.8 billion | 1 561 067        | 921 587          |
| Bonds and other debt instruments, 2.88% to 7.07%, maturing between April 2006 and January 2015, nominal value: \$97.5 million       | 102 335          | 69 636           |
| Money market securities – mutual funds                                                                                              | 34 539           | 23 448           |
| Shares and other equity interest                                                                                                    | 33 021           | 23 682           |
|                                                                                                                                     | <u>1 730 962</u> | <u>1 038 353</u> |

The amount of investments in US dollars totalled \$8.6 million CAN at March 31, 2005 (\$5.7 million CAN at March 31, 2004).

**IQ IMMIGRANTS INVESTISSEURS INC.**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousand of dollars)

**4. INVESTMENTS (cont'd)**

The amount of investments details as follows:

|                  |                  |
|------------------|------------------|
| 2006             | 1 527            |
| 2007             | 201 885          |
| 2008             | 321 378          |
| 2009             | 507 137          |
| 2010 and after   | 631 475          |
| No maturity date | <u>67 560</u>    |
|                  | <u>1 730 962</u> |

**5. SHORT-TERM BORROWINGS**

At March 31, 2005, the Corporation had a bank credit line of \$2 000 M renewable in July 2005. The amounts used bear interest at the basic lending rate.

**6. LONG-TERM BORROWINGS**

|                                                                                                          | <u>2005</u>      | <u>2004</u>      |
|----------------------------------------------------------------------------------------------------------|------------------|------------------|
| Notes – investor immigrants, interest-free, maturing between<br>January 2006 and April 2010 <sup>1</sup> | <u>1 793 200</u> | <u>1 085 200</u> |

The capital payments to make on long-term borrowings details as follows:

|      |                  |
|------|------------------|
| 2006 | 1 600            |
| 2007 | 188 800          |
| 2008 | 329 600          |
| 2009 | 553 600          |
| 2010 | 717 200          |
| 2011 | <u>2 400</u>     |
|      | <u>1 793 200</u> |

1 Capital payments are guaranteed by the Québec.

**7. CAPITAL-STOCK**

Authorized

An unlimited number of class A shares, participating and voting, without nominal value.

|                      | <u>2005</u> | <u>2004</u> |
|----------------------|-------------|-------------|
| Issued and paid      |             |             |
| 1 000 class A shares | <u>1</u>    | <u>1</u>    |

**IQ IMMIGRANTS INVESTISSEURS INC.**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousand of dollars)

**8. INVESTMENT INCOME**

|                                                     | 2005          | 2004          | 2003          |
|-----------------------------------------------------|---------------|---------------|---------------|
| Interest on Gouvernement du Québec notes receivable | 54 345        | 30 985        | 15 112        |
| Other investment income                             | 6 080         | 2 361         |               |
| Interest on cash and short-term investment income   | 173           | 1 683         | 1 612         |
| Unrealized exchange loss                            | (629)         |               |               |
|                                                     | <u>59 969</u> | <u>35 029</u> | <u>16 724</u> |

**9. ADMINISTRATIVE FEES – PARENT COMPANY**

Administrative fees for:

|                                                  | 2005       | 2004       | 2003       |
|--------------------------------------------------|------------|------------|------------|
| Salaries and fringe benefits                     | 223        | 302        | 253        |
| Rent                                             | 20         | 26         | 20         |
| Travel, entertainment, advertising and promotion | 26         | 12         | 8          |
| Fees                                             | 8          | 15         | 4          |
| Depreciation of fixed assets                     | 7          | 21         | 19         |
| Other                                            | 20         | 15         | 92         |
|                                                  | <u>304</u> | <u>391</u> | <u>396</u> |

**10. CHANGE IN NON-CASH ELEMENTS LINKED TO OPERATING ACTIVITIES**

|                                                                   | 2005         | 2004         | 2003         |
|-------------------------------------------------------------------|--------------|--------------|--------------|
| Interest and dividends receivable in investments                  | (688)        | (1 117)      |              |
| Fees payable to the parent company                                | 241          | 217          | (42)         |
| Fees payable to a related corporation,<br>La Financière du Québec | (204)        | 189          | 15           |
| Financial intermediaries fees payable                             | (148)        | (236)        | 858          |
| Other accounts payable                                            | 45           | 148          | 308          |
|                                                                   | <u>(754)</u> | <u>(799)</u> | <u>1 139</u> |

**11. FAIR MARKET 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 to assess the fair market value of its financial instruments. When there are no markets or the markets are not considered sufficiently liquid, the Corporation measures the fair market value by applying evaluation methods and 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, 2005

(in thousand of dollars)

**11. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS (cont'd)**

The table below shows the fair value of the financial instruments presented 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, i.e. deferred financial intermediaries' fees, is not included in the table.

**Financial instruments shown in the financial statements**

|                                               | 2005             |                  |                | 2004             |                  |                |
|-----------------------------------------------|------------------|------------------|----------------|------------------|------------------|----------------|
|                                               | Book<br>value    | Fair<br>value    | Difference     | Book<br>value    | Fair<br>value    | Difference     |
| <b>Assets</b>                                 |                  |                  |                |                  |                  |                |
| Cash on hand and<br>short-term<br>investments | 9 860            | 9 860            |                | 5 383            | 5 383            |                |
| Investments                                   | 1 730 962        | 1 762 962        | 32 000         | 1 038 353        | 1 082 364        | 44 011         |
| Other assets                                  | 1 805            | 1 805            |                | 1 117            | 1 117            |                |
|                                               | <u>1 742 627</u> | <u>1 774 627</u> | <u>32 000</u>  | <u>1 044 853</u> | <u>1 088 864</u> | <u>44 011</u>  |
| <b>Liabilities</b>                            |                  |                  |                |                  |                  |                |
| Long-term<br>borrowings                       | 1 793 200        | 1 573 698        | 219 502        | 1 085 200        | 956 557          | 128 643        |
| Other liabilities                             | 1 623            | 1 623            |                | 1 689            | 1 689            |                |
|                                               | <u>1 794 823</u> | <u>1 575 321</u> | <u>219 502</u> | <u>1 086 889</u> | <u>958 246</u>   | <u>128 643</u> |
|                                               |                  |                  | <u>251 502</u> |                  |                  | <u>172 654</u> |

**The fair value of the financial instruments shown in the financial statements has been estimated using the following evaluation methods and assumptions:**

*Cash and short-term investments, others assets and liabilities*

Because they mature in the short term, the fair value of cash and short-term investments maturing within three months of their acquisition date, other assets and liabilities is considered to be their book value.

The fair value of short-term investments maturing after three months of their acquisition date is estimated by capitalizing cash flows using market interest rates applying to investments with similar credit and risk conditions.

*Investments*

The fair value of investments in securities is determined based on market prices. The fair value of notes receivable from the Gouvernement du Québec is estimated by assessing cash flows using market interest rates applying to 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.

## IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousand of dollars)

**12. INTEREST-RATE SENSITIVITY**

The schedule shown below outlines the picture at March 31, 2005 of the Corporation's sensitivity to interest rate fluctuations.

|                                                                             | Less than<br>three<br>months | From 3 to<br>12 months | From 1 to<br>5 years | More than<br>5 years | Not<br>sensitive<br>to interest<br>rate | Total            |
|-----------------------------------------------------------------------------|------------------------------|------------------------|----------------------|----------------------|-----------------------------------------|------------------|
| <b>Assets</b>                                                               |                              |                        |                      |                      |                                         |                  |
| Cash on hand and short-term investments                                     | 9 390                        | 198                    |                      |                      | 272                                     | 9 860            |
| <i>Real interest rate</i>                                                   | 2.5%                         | 2.5%                   |                      |                      |                                         |                  |
| Investments                                                                 |                              | 1 527                  | 1 655 427            | 6 448                | 67 560                                  | 1 730 962        |
| <i>Real interest rate</i>                                                   |                              | 5.6%                   | 4.4%                 | 5.1%                 |                                         |                  |
| Other assets                                                                |                              |                        |                      |                      | 72 814                                  | 72 814           |
|                                                                             | <u>9 390</u>                 | <u>1 725</u>           | <u>1 655 427</u>     | <u>6 448</u>         | <u>140 646</u>                          | <u>1 813 636</u> |
| <b>Liabilities and equity</b>                                               |                              |                        |                      |                      |                                         |                  |
| Long-term borrowings                                                        |                              | 1 600                  | 1 789 200            | 2 400                |                                         | 1 793 200        |
| <i>Real interest rate</i>                                                   |                              | 0.0%                   | 0.0%                 | 0.0%                 |                                         |                  |
| Other liabilities                                                           |                              |                        |                      |                      | 1 623                                   | 1 623            |
| Equity                                                                      |                              |                        |                      |                      | 18 813                                  | 18 813           |
|                                                                             |                              | <u>1 600</u>           | <u>1 789 200</u>     | <u>2 400</u>         | <u>20 436</u>                           | <u>1 813 636</u> |
| <b>Difference in sensitivity of elements posted to financial statements</b> | <u>9 390</u>                 | <u>125</u>             | <u>(133 773)</u>     | <u>4 048</u>         | <u>120 210</u>                          |                  |
| Difference for 2004                                                         | <u>4 990</u>                 |                        | <u>(97 097)</u>      | <u>3 120</u>         | <u>88 987</u>                           |                  |

**13. 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. The total amount of these commitments does not necessarily represent future liquid asset requirements, since some of them may be terminated without having generated disbursements.

Moreover, the Corporation agreed to pay fees to financial intermediaries to close investor immigrants' files.

The amount of the commitments detail as follows:

|                                        | 2005           | 2004          |
|----------------------------------------|----------------|---------------|
| Non-refundable financial contributions | 127 361        | 88 753        |
| Financial intermediaries' fees         | <u>17 578</u>  | <u>10 975</u> |
|                                        | <u>144 939</u> | <u>99 728</u> |

**IQ IMMIGRANTS INVESTISSEURS INC.**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousand of dollars)

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**13. COMMITMENTS (cont'd)**

Future estimated disbursements resulting from these commitments detail are as follows:

|      |                       |
|------|-----------------------|
| 2006 | 45 701                |
| 2007 | 39 559                |
| 2008 | 31 702                |
| 2009 | 20 797                |
| 2010 | <u>7 180</u>          |
|      | <u><u>144 939</u></u> |

**14. 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 its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

**15. COMPARATIVE FIGURES**

Certain 2003 and 2004 figures were reclassified for consistency with the presentation adopted in 2005.



**IQ IMMIGRANTS INVESTISSEURS INC.****AUDITOR'S REPORT**

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To IQ Immigrants Investisseurs inc. shareholders

I have audited the balance sheet of IQ Immigrants Investisseurs inc. as at March 31, 2005, the statement of income and retained earnings and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Company's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with 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 General of Québec

Québec, May 30, 2005

**LA FINANCIÈRE AGRICOLE DU QUÉBEC**  
(R.S.Q., c. L-0.1)

**CONSOLIDATED REVENUE AND EXPENDITURE**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                                | 2005           | 2004           |
|--------------------------------------------------------------------------------|----------------|----------------|
| <b>REVENUE</b>                                                                 |                |                |
| Gouvernement du Québec contribution (Note 5)                                   | 306 401        | 332 320        |
| Special Gouvernement du Québec contribution (Note 6)                           | 10 000         | 10 000         |
| Government of Canada contribution (Note 7)                                     | 268 856        | 220 620        |
| Administrative fees                                                            | 4 010          | 3 631          |
| Interest and investment income                                                 | 13 154         | 11 617         |
| Other revenue                                                                  | 154            | 206            |
|                                                                                | <u>602 575</u> | <u>578 394</u> |
| <b>EXPENDITURE</b>                                                             |                |                |
| Contribution to the:                                                           |                |                |
| Farm Income Stabilization Insurance Fund                                       | 255 137        | 322 699        |
| Crop Insurance Fund                                                            | 31 679         | 22 670         |
| Farm and Forestry Loan Insurance Fund                                          | 10 433         | 14 638         |
| Farm Income Stabilization Account                                              | 1 860          | 32 540         |
| Contribution to interest payments                                              | 3 038          | 5 058          |
| Subvention – Young farmers' financial support program                          | 9 776          | 8 382          |
| Compensation under bovine spongiform encephalopathy recovery programs (Note 8) | 319            | 93 929         |
| Contribution to payment of the Canadian Farm Income Stabilization (Note 9)     | 126 306        |                |
| Government of Canada transition assistance program (Note 10)                   | 12 830         |                |
| Industry transition assistance program (Note 11)                               | 69 661         |                |
| Canadian Farm Income Program allowances                                        | 107            | 4 617          |
| Net-income stabilization account – Government of Canada                        | 74             | 6 765          |
| Contribution to financing of organizations                                     | 1 277          | 1 100          |
| Administrative expenses (Note 12)                                              | 64 482         | 52 935         |
| Interest                                                                       | 6 388          | 3 939          |
| Loss in value on holding company investments                                   | 156            |                |
| Provision for losses on investments (Note 21)                                  | 728            |                |
| Loss on write-off of investments                                               |                | 1 029          |
|                                                                                | <u>594 251</u> | <u>570 301</u> |
| <b>SURPLUS REVENUE OVER EXPENDITURE BEFORE SHARE</b>                           | 8 324          | 8 093          |
| <b>SHARE IN SATELLITE CORPORATION LOSS</b>                                     | <u>275</u>     |                |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                         | <u>8 049</u>   | <u>8 093</u>   |

The notes are an integral part of these financial statements.

**LA FINANCIÈRE AGRICOLE DU QUÉBEC**

CONSOLIDATED SURPLUS  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                            | <u>2005</u>           | <u>2004</u>           |
|--------------------------------------------|-----------------------|-----------------------|
| <b>OPENING SURPLUS</b>                     | 100 743               | 92 650                |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>     | <u>8 049</u>          | <u>8 093</u>          |
| <b>CLOSING SURPLUS</b>                     | <u><u>108 792</u></u> | <u><u>100 743</u></u> |
| Year-end surplus includes:                 |                       |                       |
| Surplus assigned to General Fund (Note 13) | 88 372                | 78 122                |
| Unappropriated surplus                     | <u>20 420</u>         | <u>22 621</u>         |
|                                            | <u><u>108 792</u></u> | <u><u>100 743</u></u> |

The notes are an integral part of these financial statements.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## CONSOLIDATED BALANCE SHEET

as at March 31, 2005

(in thousands of dollars)

|                                                                         | 2005           | 2004           |
|-------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                           |                |                |
| <b>Current assets</b>                                                   |                |                |
| Cash                                                                    | 7 246          | 13 477         |
| Short-term investments (Note 14)                                        | 32 858         | 90 209         |
| Accounts receivable and accrued interest                                | 1 850          | 637            |
| Advances to participants (Note 15)                                      | 29 867         |                |
| Fédération des producteurs acéricoles du Québec<br>receivable (Note 16) | 30 000         | 21 000         |
| Farm Income Stabilization Insurance Fund receivable<br>(Note 17)        | 390 617        | 326 146        |
| Gouvernement du Québec receivable (Note 18)                             | 1 785          | 17 966         |
| Government of Canada receivable (Note 19)                               | 38 855         | 29 339         |
| Payments receivable on loans (Note 20)                                  | 1 551          | 1 761          |
| Payments receivable on investments (Note 21)                            | 235            | 76             |
| Prepaid expenses                                                        |                | 778            |
| Assets destined for sale (Note 22)                                      |                | 370            |
|                                                                         | <u>534 864</u> | <u>501 759</u> |
| <b>Gouvernement du Québec receivable (Note 18)</b>                      | 5 426          | 6 430          |
| <b>Loans (Note 20)</b>                                                  | 10 442         | 13 233         |
| <b>Investments (Note 21)</b>                                            | 4 201          | 3 272          |
| <b>Fixed assets (Note 23)</b>                                           | 1 192          | 1 233          |
| <b>Intangible assets (Note 24)</b>                                      | <u>2 222</u>   | <u>2 227</u>   |
|                                                                         | <u>558 347</u> | <u>528 154</u> |

**LA FINANCIÈRE AGRICOLE DU QUÉBEC**

CONSOLIDATED BALANCE SHEET (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

|                                                                                                    | 2005                  | 2004                  |
|----------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>LIABILITIES</b>                                                                                 |                       |                       |
| <b>Current liabilities</b>                                                                         |                       |                       |
| Bank loans (Note 25)                                                                               | 310 977               | 199 700               |
| Accounts payable and accrued liability (Note 26)                                                   | 24 422                | 13 482                |
| Deferred federal assistance (Note 27)                                                              | 16 204                | 11 000                |
| Owing to the Gouvernement du Québec                                                                | 448                   | 146                   |
| Owing to the Government of Canada (note 28)                                                        | 256                   | 6 962                 |
| Owing to the Fund (Note 29)                                                                        | 38 300                | 107 982               |
| Provision for Canadian Farm Income Program compensation                                            |                       | 2 065                 |
| Provision for contribution to payment of the Canadian Agricultural<br>Income Stabilization Program | 14 362                |                       |
| Provision for compensation under bovine spongiform<br>encephalopathy recovery programs             | 229                   | 32 491                |
| Provision for vacation pay                                                                         | 4 650                 | 4 433                 |
|                                                                                                    | <u>409 848</u>        | <u>378 261</u>        |
| <b>Deferred Government assistance</b>                                                              |                       | 66                    |
| <b>Gouvernement du Québec advance</b> (Note 30)                                                    | 16 194                | 16 128                |
| <b>Deferred special Gouvernement du Québec contribution</b> (Note 6)                               | 10 000                | 20 000                |
| <b>Provision for sick leave</b> (Note 31)                                                          | 13 513                | 12 956                |
|                                                                                                    | <u>449 555</u>        | <u>427 411</u>        |
| <b>SURPLUS</b>                                                                                     | <u>108 792</u>        | <u>100 743</u>        |
|                                                                                                    | <u><u>558 347</u></u> | <u><u>528 154</u></u> |

**COMMITMENTS** (Note 34)

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO  
Laurent Pellerin, Chairman of the Board of Directors

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED CASH FLOW  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                                                    | 2005             | 2004             |
|----------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                                                        |                  |                  |
| Excess revenue over expenditure                                                                    | 8 049            | 8 093            |
| Cash flow-neutral elements:                                                                        |                  |                  |
| Capitalized interest on investments                                                                | (272)            | (157)            |
| Amortization of fixed assets                                                                       | 734              | 747              |
| Amortization of intangible assets                                                                  | 738              | 868              |
| Loss (gain) in disposal of fixed assets                                                            | 23               | (6)              |
| Loss in value on holding company investments                                                       | 155              |                  |
| Provision for losses on investments                                                                | 728              |                  |
| Share of satellite corporation loss                                                                | 275              |                  |
| Write-off on investments                                                                           |                  | 1 029            |
| Variation in the deferred special Gouvernement<br>du Québec contribution                           | (10 000)         | (10 000)         |
| Variation in deferred Government assistance                                                        | (66)             | (9)              |
|                                                                                                    | <u>364</u>       | <u>565</u>       |
| Variation in non-cash elements linked to operations:                                               |                  |                  |
| Accounts payable and accrued interest                                                              | (1 213)          | 665              |
| Advances to participants                                                                           | (29 867)         |                  |
| Fédération des producteurs acéricoles du Québec receivable                                         | (9 000)          | 2 000            |
| Farm Income Stabilization Insurance Fund receivable                                                | (64 471)         | (231 638)        |
| Gouvernement du Québec receivable                                                                  | 17 185           | (16 716)         |
| Government of Canada receivable                                                                    | (9 516)          | (23 746)         |
| Prepaid expenses                                                                                   | 778              | (650)            |
| Assets destined for sale                                                                           | 370              | (370)            |
| Accounts payables and accrued liability                                                            | 10 854           | (638)            |
| Deferred federal assistance                                                                        | 5 204            | 11 000           |
| Owing to the Gouvernement du Québec                                                                | 302              | (695)            |
| Owing to the Government of Canada                                                                  | (6 706)          | 3 738            |
| Owing to the Fund                                                                                  | (69 682)         | 58 997           |
| Provision for Canadian Farm Income Program compensation                                            | (2 065)          | 461              |
| Provision for contribution to payment of the Canadian Agricultural<br>Income Stabilization Program | 14 362           |                  |
| Provision for compensation under bovine spongiform<br>encephalopathy recovery programs             | (32 262)         | 32 491           |
| Provision for vacation time                                                                        | 217              | 732              |
| Provision for sick leave                                                                           | 557              | 2 294            |
|                                                                                                    | <u>(174 953)</u> | <u>(162 075)</u> |
| Cash flows linked to operating activities                                                          | <u>(174 589)</u> | <u>(161 510)</u> |
| <b>INVESTMENT ACTIVITIES</b>                                                                       |                  |                  |
| Cashing of loans                                                                                   | 3 001            | 3 471            |
| Acquisition of investments                                                                         | (1 995)          | (3 560)          |
| Cashing of debenture investments                                                                   | 21               |                  |
| Acquisition of fixed assets                                                                        | (631)            | (600)            |
| Acquisition of intangible assets                                                                   | (733)            | (657)            |
| Proceeds from the disposal of fixed assets                                                         | 1                | 6                |
| Cash flows linked to investment activities                                                         | <u>(336)</u>     | <u>(1 340)</u>   |
| Amounts carried forward                                                                            | <u>(174 925)</u> | <u>(162 850)</u> |

**LA FINANCIÈRE AGRICOLE DU QUÉBEC**

CONSOLIDATED CASH FLOW (cont'd)  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                               | <u>2005</u>             | <u>2004</u>            |
|-------------------------------------------------------------------------------|-------------------------|------------------------|
| Amounts brought forward                                                       | <u>(174 925)</u>        | <u>(162 850)</u>       |
| <b>FINANCING ACTIVITIES</b>                                                   |                         |                        |
| Gouvernement du Québec advance, cash flows related to<br>financing activities | <u>66</u>               | <u></u>                |
| <b>NET VARIATION IN CASH AND CASH EQUIVALENTS</b>                             | (174 859)               | (162 850)              |
| <b>OPENING CASH AND CASH EQUIVALENTS</b>                                      | <u>(96 014)</u>         | <u>66 836</u>          |
| <b>CLOSING CASH AND CASH EQUIVALENTS</b>                                      | <u><u>(270 873)</u></u> | <u><u>(96 014)</u></u> |
| <br>Closing cash and cash equivalents include:                                |                         |                        |
|                                                                               | <u>2005</u>             | <u>2004</u>            |
| Cash                                                                          | 7 246                   | 13 477                 |
| Short-term investments                                                        | 32 858                  | 90 209                 |
| Short-term borrowings                                                         | <u>(310 977)</u>        | <u>(199 700)</u>       |
|                                                                               | <u><u>(270 873)</u></u> | <u><u>(96 014)</u></u> |
| <br>Additional cash-flow information:                                         |                         |                        |
| <br>Interest paid                                                             | <u>4 774</u>            | <u>4 718</u>           |

The notes are an integral part of these financial statements.

**LA FINANCIÈRE AGRICOLE DU QUÉBEC****FARM INCOME STABILIZATION INSURANCE FUND****REVENUE AND EXPENDITURE AND DEFICIT**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                            | <u>2005</u>             | <u>2004</u>             |
|------------------------------------------------------------|-------------------------|-------------------------|
| <b>REVENUE</b>                                             |                         |                         |
| Participants' contributions (Note 32)                      | 127 569                 | 161 385                 |
| La Financière agricole du Québec contribution (Note 32)    | 255 137                 | 322 699                 |
| Interest and investment income                             | <u>297</u>              | <u>842</u>              |
|                                                            | <u>383 003</u>          | <u>484 926</u>          |
| <b>EXPENDITURE</b>                                         |                         |                         |
| Compensation to participants (Note 32)                     | 316 516                 | 559 828                 |
| Interest                                                   | 8 087                   | 5 865                   |
| Other expenses                                             | <u>14</u>               | <u>14</u>               |
|                                                            | <u>324 603</u>          | <u>565 707</u>          |
| <b>EXCESS (INSUFFICIENCY) REVENUE<br/>OVER EXPENDITURE</b> | 58 400                  | (80 781)                |
| <b>OPENING DEFICIT</b>                                     | <u>(372 391)</u>        | <u>(291 610)</u>        |
| <b>CLOSING DEFICIT</b>                                     | <u><u>(313 991)</u></u> | <u><u>(372 391)</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, 2005  
(in thousands of dollars)

|                                                                    | <u>2005</u>      | <u>2004</u>      |
|--------------------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                                      |                  |                  |
| <b>Current assets</b>                                              |                  |                  |
| Cash on hand                                                       | 83               | 237              |
| Accounts receivable and accrued interest                           | 10 583           | 3 556            |
| La Financière agricole du Québec contribution receivable (Note 29) | 19 831           | 33 561           |
| Advances to participants (Note 33)                                 | <u>187 799</u>   | <u>142 863</u>   |
|                                                                    | <u>218 296</u>   | <u>180 217</u>   |
| <b>LIABILITIES</b>                                                 |                  |                  |
| <b>Current liabilities</b>                                         |                  |                  |
| Accounts payable and accrued liability (Note 26)                   | 4 755            | 28 188           |
| Owing to La Financière agricole du Québec (Note 17)                | 390 617          | 326 146          |
| Unearned contributions                                             | 90 605           | 81 481           |
| Provision for compensation                                         | <u>46 310</u>    | <u>116 793</u>   |
|                                                                    | 532 287          | 552 608          |
| <b>DEFICIT (Note 39)</b>                                           | <u>(313 991)</u> | <u>(372 391)</u> |
|                                                                    | <u>218 296</u>   | <u>180 217</u>   |

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO  
Laurent Pellerin, Chairman of the Board of Directors

**LA FINANCIÈRE AGRICOLE DU QUÉBEC****CROP INSURANCE FUND****REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                               | <u>2005</u>          | <u>2004</u>          |
|-----------------------------------------------|----------------------|----------------------|
| <b>REVENUE</b>                                |                      |                      |
| Participants' contributions                   | 21 756               | 24 285               |
| La Financière agricole du Québec contribution | 31 679               | 22 670               |
| Variation in decline in value of investments  | 3 138                |                      |
| Interest and investment income                | <u>2 919</u>         | <u>1 835</u>         |
|                                               | <u>59 492</u>        | <u>48 790</u>        |
| <b>EXPENDITURE</b>                            |                      |                      |
| Compensation to participants                  | 56 383               | 40 948               |
| Loss on investments                           |                      | 2 191                |
| Interest on allowances                        | <u>4</u>             | <u>46</u>            |
|                                               | <u>56 387</u>        | <u>43 185</u>        |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>        | <u>3 105</u>         | <u>5 605</u>         |
| <b>OPENING SURPLUS</b>                        |                      |                      |
| Previously established balance                | 65 282               | 59 677               |
| Adjustment at April 1, 2004 (Note 4)          | <u>6 075</u>         |                      |
| Adjusted balance                              | <u>71 357</u>        | <u>59 677</u>        |
| <b>CLOSING SURPLUS</b>                        | <u><u>74 462</u></u> | <u><u>65 282</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, 2005  
(in thousands of dollars)

|                                                                    | <u>2005</u>          | <u>2004</u>          |
|--------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                      |                      |                      |
| <b>Current assets</b>                                              |                      |                      |
| Cash                                                               | 239                  | 55                   |
| Short-term investments (Note 14)                                   | 4 398                | 10 290               |
| Accounts receivable and accrued interest                           | 513                  | 377                  |
| La Financière agricole du Québec contribution receivable (Note 29) | <u>13 649</u>        | <u>41 290</u>        |
|                                                                    | 18 799               | 52 012               |
| <b>Investments</b> (Note 21)                                       | <u>66 856</u>        | <u>17 641</u>        |
|                                                                    | <u><u>85 655</u></u> | <u><u>69 653</u></u> |
| <b>LIABILITIES</b>                                                 |                      |                      |
| <b>Current liabilities</b>                                         |                      |                      |
| Accounts payable and accrued liability                             | 154                  | 294                  |
| Unearned contributions                                             | 662                  | 206                  |
| Deferred federal contribution (Note 27)                            | 7 884                |                      |
| Provision for compensation                                         | <u>2 493</u>         | <u>3 871</u>         |
|                                                                    | 11 193               | 4 371                |
| <b>SURPLUS</b> (Note 40)                                           | <u>74 462</u>        | <u>65 282</u>        |
|                                                                    | <u><u>85 655</u></u> | <u><u>69 653</u></u> |

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO  
Laurent Pellerin, Chairman of the Board of Directors

**LA FINANCIÈRE AGRICOLE DU QUÉBEC****FARM INCOME STABILIZATION ACCOUNT FUND****CHANGE IN FUND BALANCE**

for the year March 31, 2005

(in thousands of dollars)

|                                               | <u>2005</u>     | <u>2004</u>     |
|-----------------------------------------------|-----------------|-----------------|
| <b>OPENING BALANCE</b>                        | 25 304          | 11 686          |
| Contribution des participants                 | 2 192           | 21 565          |
| La Financière agricole du Québec contribution | 1 860           | 32 540          |
| Government of Canada transitional assistance  | (60)            | 107             |
| Interest distributed in participant accounts  | 115             | 162             |
| Participant withdrawals                       | <u>(24 591)</u> | <u>(40 756)</u> |
| <b>CLOSING BALANCE</b>                        | <u>4 820</u>    | <u>25 304</u>   |

**BALANCE SHEET**

as at March 31, 2005

(in thousands of dollars)

|                                                                    | <u>2005</u>       | <u>2004</u>   |
|--------------------------------------------------------------------|-------------------|---------------|
| <b>ASSETS</b>                                                      |                   |               |
| <b>Current assets</b>                                              |                   |               |
| La Financière agricole du Québec contribution receivable (Note 29) | <u>4 820</u>      | <u>25 304</u> |
| <b>LIABILITIES</b>                                                 |                   |               |
| <b>Current liabilities</b>                                         |                   |               |
| Participant accounts                                               | 4 820             | 12 504        |
| Transitional measures to be paid into participant accounts         | <u>          </u> | <u>12 800</u> |
|                                                                    | <u>4 820</u>      | <u>25 304</u> |

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO

Laurent Pellerin, Chairman of the Board of Directors

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(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-0.1). La Financière agricole du Québec is managed in partnership with the agricultural sector and its main mission is to support and promote, from a sustainable development viewpoint, agricultural and agrifood sector development. It offers operations income protection, insurance, investment and farm/forestry financing products and services adapted to the management of risks inherent in this activity sector.

Further, La Financière agricole administers the Farm and Forestry Loan Insurance Fund, assuming the insurance fees payable for the Fund.

#### 2. DESCRIPTION OF PROGRAMS

##### I) Farm Income Stabilization Insurance Program

The Farm Income Stabilization Insurance Program offers farm operations protection against fluctuating market prices. Its goal is to guarantee them a positive net annual income. For this purpose, compensation is paid to the participant when the net annual income falls short of the net annual stabilised income.

##### II) Crop Insurance Program

The Crop Insurance Program was set up to enable farm operations to insure themselves against the loss of crop yields due to uncontrollable risks not caused by human intervention.

##### III) Farm Income Stabilization Account

The Farm Income Stabilization Account program is designed to offer Québec farm operations a risk management tool based on overall income earned from their operation. Following the implementation of the Canadian Agricultural Income Stabilization Program, La Financière agricole terminated its program in 2002. Participants have five years to make withdrawals from their account with a minimum annual withdrawal of 20% of the Government contribution established at February 1, 2005.

The interest paid into participants' accounts is calculated using the reference rate for one-year guaranteed investment certificates.

##### IV) Bovine Spongiform Encephalopathy (BSE) Recovery Program

The Bovine Spongiform Encephalopathy (BSE) Recovery Program established under a Canada-Québec agreement offers financial assistance to the farm clientele affected by mad cow disease. In phase 1, the program covers the period May 20 to August 31, 2003 providing for slaughter support for producers of cattle and other ruminants, which is paid according to the formula 60% federal government and 40% Québec government.

In phase 2, the Cull Animal Program offers financial assistance to dairy producers, feeder calf producers and producers of other ruminants to offset severely depressed market prices. This program applies to livestock owned as at September 1, 2003. Program costs are paid according to the formula 60% federal government and 40% provinces.

##### V) BSE recovery program and Producer support program for cull animals following the BSE

The BSE recovery program, implemented by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ), offers financial assistance to beef and slaughter cattle producers and husbandry cattle to offset the drop in market prices. The program covers the animals owned on May 20, 2003 and sold between May 20 and December 31, 2003.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

## 2. DESCRIPTION OF PROGRAMS (cont'd)

### V) **BSE recovery program and Producer support program for cull animals following the BSE (cont'd)**

The producer support program for cull animals following the BSE implemented by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ) offers financial assistance corresponding to 40% of the cost of Phase 2 of the federal program and envisages increasing the cull rate applied to the program for the "dairy cattle" category.

La Financière agricole du Québec administers both of these programs.

### VI) **Canadian Agricultural Income Stabilization Program (CAIS)**

The Canadian Agricultural Income Stabilization Program was set up on October 31, 2003 following the signing of the Canada-Québec implementation agreement in order to enact the federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st century. It is designed to offer farm operations a risk management tool based on the operation's aggregate income. The Canadian and Québec governments assume 60% and 40% respectively of the overall program cost.

For this purpose, the program requires setting up individual funds for participants' deposits and makes provisions for the withdrawal of liquid assets and the payment of government contributions offsetting the drop in income based on the level of coverage chosen by participants. However, for 2003 and 2004, agricultural operations did not have to make a deposit before obtaining the government contribution.

The program was implemented in the current fiscal year.

### VII) **Canadian Farm Income Program (CFIP)**

The Canadian Farm Income Program provided assistance to agricultural operations that posted significant income losses in 2000, 2001 and 2002. The Government of Canada and Gouvernement du Québec covered 60% and 40% respectively of overall program costs. The last payments under this program were made in the current fiscal year.

### VIII) **Flue-cured tobacco productive acreage withdrawal program**

The Flue-cured tobacco productive acreage withdrawal program is designed to offer financial support to eligible operations withdrawing from the production of flue-cured tobacco and to promote their reorientation to alternative crops. This program applies to operations participating in the Crop Insurance Program for the 2003 insurance year and is in effect from April 1, 2005 to March 31, 2007.

### IX) **Government of Canada transition assistance program**

The Government of Canada transition assistance program, set up under a Canada-Québec agreement, is intended to help the farm sector tackle the income problems facing it and to support its transition to a new generation of risk management tools. The Government of Canada covers all program costs.

### X) **Industry transition assistance program**

The Industry transition assistance program, set up under a Canada-Québec agreement, is designed to promote the transition of the bovine sector and other sectors to the new farm risk management program resulting from the farm strategy framework. The agreement includes two action components: 1) financial assistance to farm producers participating in the Farm Income Stabilization Program or the Farm Income Stabilization Account and 2) the payment component for livestock designed for livestock breeders. The Government of Canada covers all program costs.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

## 2. DESCRIPTION OF PROGRAMS (cont'd)

### XI) Farm financing program

The Farm Financing Program is designed to make it easier for farm operations to obtain funding from financial institutions by authorizing loan guarantees through the Farm and Forestry Loan Insurance Fund in order to help these operations start up, develop and make it through difficult economic situations.

### XII) Interest rate increase protection program

The Interest rate increase protection program is designed to minimize the impact of interest rate increases on farm operations and foster their development by helping to pay interest charges.

### XIII) Young farmers' financial support program

The Young farmers' financial support program is designed to promote farm operation supervision and start-up, to make it easier for young farmers to get started, to encourage them to acquire proper training and to promote development of farm operations through an additional contribution for interest payments or capital subsidies.

### XIV) Financial assistance to maple product operations program

A financial assistance to maple product operations program and short-term financing under special measures targeting maple products were renewed by La Financière agricole during the year to promote the development of maple product marketing. The financial assistance awarded is in the form of a special contribution to interest payments.

### XV) Beekeepers financing assistance program

The Beekeepers financing assistance program seeks to promote rebuilding of bee colonies struck by varroasis in 2002-2003. This financial assistance takes the form of a special contribution for interest payments.

### XVI) Forestry financing program

La Financière agricole administers the forestry financing program for the Ministère des Ressources naturelles et de la Faune du Québec. This program is designed to make it easier for farm operations to obtain funding from financial institutions by authorizing loan guarantees through the Farm and Forestry Loan Insurance Fund in order to support the creation, maintenance or development of forest production units.

## 3. ACCOUNTING POLICIES

### Using estimates

The preparation of financial statements in keeping with the accounting principles generally recognized in Canada requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. These same estimates and assumptions also affect the presentation of events as at the date of the financial statements, income items and expenditures for the fiscal year. Significant estimates include the service life of fixed assets and intangible assets, provisions and certain fees payable. Management believes that these estimates are adequate.

### Cash flow statements

The cash flow statements for the funds administered by La Financière agricole are not presented since they would not provide additional useful information for understanding cash flows in the fiscal year.

**LA FINANCIÈRE AGRICOLE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**3. ACCOUNTING POLICIES (cont'd)****LA FINANCIÈRE AGRICOLE DU QUÉBEC****Consolidation perimeter**

The consolidated financial statements reflect the accounts of La Financière agricole and its subsidiary, Capital Financière agricole inc.

The Crop Insurance Fund and Farm Income Stabilization Fund are not consolidated since they are separate trust funds under section 70 of the Act respecting La Financière agricole du Québec. Similarly, the Farm Income Stabilization Account is not consolidated since it constitutes a trust fund administered by La Financière agricole under section 37 of its program, as permitted by section 22 of the Act respecting La Financière agricole du Québec.

**Short-term investments**

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

**Investments**

Venture-capital investments take the form of capital stock or debentures. La Financière agricole records its investments at consolidation value when its share in an issuing corporation's voting shares enable it to significantly influence this satellite corporation's financial and administrative decisions. Capital-stock investments in which La Financière agricole exercises no control or notable influence, and debentures, are recorded at acquisition cost plus interest accrued. Investments are reduced by all permanent declines in value and provisions for losses, where applicable.

When the quality of the credit of a debenture investment has deteriorated to the point that the Société is no longer reasonably assured of recovering the entire principal and interest, interest income is no longer recorded and a provisions for losses is posted.

**Provision for losses**

The provision for losses on investments is presented by reducing their book values to bring them to their estimated realization value. When the amounts and time for realizing future cash flows cannot be reasonably estimated reliably, the estimated realizable amounts are measured in keeping with observable market prices for these loans or according to the judgement of Société management.

The provision is established through a case-by-case analysis and recorded as soon as the losses can be reasonably evaluated. The annual change in this provision is recorded in the consolidated statement of revenue and expenditure.

**Fixed assets**

Fixed assets, comprising material and equipment, are recorded at acquisition cost and amortized over their service life using the straight-line method at 20% and 33 1/3%.

**Intangible assets**

Intangible assets, representing the costs related to computer systems development, are recorded at cost and amortized over their estimated service life using the straight line method at 20%.



## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

### 3. ACCOUNTING POLICIES (cont'd)

#### LA FINANCIÈRE AGRICOLE DU QUÉBEC (cont'd)

##### **Contributions, allowances and transfer payments**

Contributions, allowances and transfer payments are posted to expenditures for the fiscal year when authorized and when the beneficiary has met all the eligibility criteria.

##### **Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise 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**

La Financière agricole's policy consists of presenting, as cash and cash equivalents, bank balances, short-term investments and borrowings that are easily convertibles in the short term into a know amount of cash whose value is unlikely to change significantly.

#### FARM INCOME STABILIZATION INSURANCE FUND AND CROP INSURANCE FUND

##### **Contributions, compensation and transfer payments**

Contributions, compensation from the Farm Income Stabilization Insurance Program and allowances under the Crop Insurance Program are posted to revenues or expenditures for the fiscal year in which the insurance year ends.

The year 2004 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 39.

##### **Investments**

Short-term investments are recorded at their fair value determined as their closing value the date balance sheet was prepared. Funds entrusted to the Caisse de dépôt et placement du Québec are posted at fair value and determined by the Caisse using the evaluation methods used in capital markets. They include participation deposits in a specific Caisse fund designed irrevocably for transactions and the related income receivable.

### 4. CHANGE IN AN ACCOUNTING POLICY

#### **Crop Insurance Fund**

Beginning this fiscal year, the Crop Insurance Fund applies the recommendations Section 3855 of the Canadian Institute of Chartered Accountants' handbook "Financial instruments – recording and evaluation".

In keeping with this standard, short-term investments and the funds entrusted to the Caisse de dépôt et placement du Québec are evaluated at fair value. The Crop Insurance Fund has chosen to designate its investments as being held for transaction purposes, as permitted by the provisions of this standard. Consequently, the gains and losses realized are posted to the fiscal year's investment income and the annual change in the unrealized increase or decline in value is recorded in the statement of revenue and expenditure and surplus. Previously, these funds were reported at acquisition cost less any permanent decline in value.

The effect of this change on the financial statements of fiscal 2004 and the years previous, in the amount of \$6 075 M, was posted directly to the surplus on April 1, 2004. The financial statements for the year ended March 31, 2004 were not adjusted to reflect this change.

**LA FINANCIÈRE AGRICOLE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**4. CHANGE IN AN ACCOUNTING POLICY (cont'd)****Crop Insurance Fund (cont'd)**

This change, applied retroactively, increased the following items of the financial statements for the year ended March 31, 2005:

**Revenue and expenditure and surplus****Revenue**

|                                                                  |       |
|------------------------------------------------------------------|-------|
| Change in unrealized increase or decline in value of investments | 3 138 |
|------------------------------------------------------------------|-------|

|                                 |       |
|---------------------------------|-------|
| Excess revenue over expenditure | 3 138 |
|---------------------------------|-------|

**Balance sheet****Assets**

|             |       |
|-------------|-------|
| Investments | 9 213 |
|-------------|-------|

|         |       |
|---------|-------|
| Surplus | 9 213 |
|---------|-------|

**5. GOUVERNEMENT DU QUÉBEC CONTRIBUTION**

The Québec Minister of Agriculture, Fisheries and Food and La Financière agricole du Québec signed a seven-year agreement, which came into effect on April 1, 2001. Under this agreement, the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec pays to and for the benefit of the Société an annual amount of \$305 million.

The Minister of National Resources and Wildlife of Québec and La Financière agricole du Québec signed a three-year agreement that took effect on April 1, 2004. Under it, the Department pays for an on behalf of the Société an annual amount of \$1 400 M.

|                                                                                                        | 2005    | 2004    |
|--------------------------------------------------------------------------------------------------------|---------|---------|
| Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec contribution under agreement: |         |         |
| bovine spongiform encephalopathy recovery programs (Note 8)                                            | 305 000 | 305 000 |
| Ministère des Ressources naturelles et de la Faune du Québec contribution                              | 1       | 25 643  |
|                                                                                                        | 1 400   | 1 677   |
|                                                                                                        | 306 401 | 332 320 |

**6. SPECIAL GOUVERNEMENT DU QUÉBEC CONTRIBUTION**

On April 9, 2001, the Gouvernement du Québec paid a special contribution of \$50 million to set up a reserve to reduce future La Financière agricole contributions to the Farm Income Stabilization Insurance Fund. This amount is amortized using the straight-line method over five years.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**7. GOVERNMENT OF CANADA CONTRIBUTION**

The Government of Canada contribution is established in keeping with the following agreements:

|                                                                                                                     | 2005           | 2004           |
|---------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st century: |                |                |
| production insurance for:                                                                                           |                |                |
| contribution to the insurance plan                                                                                  | 18 969         | 13 602         |
| contribution to administration                                                                                      | 8 673          | 9 061          |
| Canadian Agricultural Income Stabilization Program for:                                                             |                |                |
| contribution to payment                                                                                             | 75 784         |                |
| contribution to administration                                                                                      | 10 905         | 1 415          |
| provincial programs                                                                                                 | 60 900         | 91 300         |
|                                                                                                                     | <u>175 231</u> | <u>115 378</u> |
| Federal-provincial agreement establishing the Canada Farm Income Program                                            | 48             | 3 082          |
| Canada-Québec agreement on an additional federal contribution to the Farm Income Insurance-Stabilization Plan       | <u>(49)</u>    | <u>26 834</u>  |
| Canada-Québec agreement on transitional assistance:                                                                 |                |                |
| contribution to the Farm Income Stabilization Insurance Program                                                     | 118            | 25 045         |
| contribution to operations having participated in the Farm Income Stabilization Account                             | <u>12 830</u>  |                |
|                                                                                                                     | <u>12 948</u>  | <u>25 045</u>  |
| Canada-Québec agreement establishing the BSE recovery program (Note 8)                                              | <u>213</u>     | <u>50 281</u>  |
| Canada-Québec agreement on transitional assistance to the industry for:                                             |                |                |
| overall financial assistance for:                                                                                   |                |                |
| contribution to the Farm Income Stabilization Insurance Program                                                     | 10 213         |                |
| contribution to operations having participated in the Farm Income Stabilization Account                             | 5 216          |                |
| payment for livestock                                                                                               | 64 445         |                |
| contribution to administration                                                                                      | <u>591</u>     |                |
|                                                                                                                     | <u>80 465</u>  |                |
|                                                                                                                     | <u>268 856</u> | <u>220 620</u> |

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

**7. GOVERNMENT OF CANADA CONTRIBUTION (cont'd)**

The federal contribution was allocated to the following programs:

|                                                    | 2005           | 2004           |
|----------------------------------------------------|----------------|----------------|
| Farm Income Stabilization Insurance Program        | 71 182         | 143 179        |
| Crop insurance Program                             | 27 642         | 22 663         |
| Canada Farm Income Program                         | 48             | 3 082          |
| Canadian Agricultural Income Stabilization Program | 86 689         | 1 415          |
| BSE Recovery Program (Note 8)                      | 213            | 50 281         |
| Government of Canada transition assistance program | 12 830         |                |
| Industry transition assistance program             | 70 252         |                |
|                                                    | <u>268 856</u> | <u>220 620</u> |

The Canadian government reimburses 60% of the administrative expenses of the Crop Insurance Program and of the Canadian Agricultural Income Stabilization Program.

**8. RECONCILIATION OF EXPENDITURES AND INCOME FOR BOVINE SPONGIFORM ENCEPHALOPATHY (BSE) PROGRAMS**

| Assumed by:                                       | Government<br>of Canada | Ministère de<br>l'Agriculture,<br>des Pêcheries<br>et de<br>l'Alimentation<br>du Québec | La Financière<br>agricole<br>du Québec | Total |
|---------------------------------------------------|-------------------------|-----------------------------------------------------------------------------------------|----------------------------------------|-------|
| <b>Year 2005</b>                                  |                         |                                                                                         |                                        |       |
| Bovine Spongiform Encephalopathy (BSE)<br>Program |                         |                                                                                         |                                        |       |
| Phase 1:                                          | 191                     | 2                                                                                       | 126                                    | 319   |
| Phase 2:                                          |                         |                                                                                         |                                        |       |
| Total compensation                                | 191                     | 2                                                                                       | 126                                    | 319   |
| Administrative costs                              | <u>22</u><br>213        | <u>(1)</u><br>1                                                                         |                                        |       |
| Contributions received during fiscal year         | (18 386)                | (14 749)                                                                                |                                        |       |
| Contributions receivable at the beginning         | 18 190                  | 15 418                                                                                  |                                        |       |
| Contributions receivable at the end               | <u>17</u>               | <u>670</u>                                                                              |                                        |       |

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**8. RECONCILIATION OF EXPENDITURES AND INCOME FOR BOVINE SPONGIFORM ENCEPHALOPATHY (BSE) PROGRAMS (cont'd)**

| Assumed by:                                                | Government<br>of Canada | Ministère de<br>l'Agriculture,<br>des Pêcheries<br>et de<br>l'Alimentation<br>du Québec | La Financière<br>agricole<br>du Québec | Total         |
|------------------------------------------------------------|-------------------------|-----------------------------------------------------------------------------------------|----------------------------------------|---------------|
| <b>Year 2004</b>                                           |                         |                                                                                         |                                        |               |
| Bovine Spongiform Encephalopathy (BSE)<br>Program          |                         |                                                                                         |                                        |               |
| Phase 1:                                                   | 31 742                  | 2 022                                                                                   | 19 140                                 | 52 904        |
| Phase 2:                                                   | 17 725                  |                                                                                         |                                        | 17 725        |
|                                                            | <u>49 467</u>           | <u>2 022</u>                                                                            | <u>19 140</u>                          | <u>70 629</u> |
| BSE recovery support program                               |                         | 10 000                                                                                  |                                        | 10 000        |
| Producer support program for cull animals<br>following BSE |                         | <u>13 300</u>                                                                           |                                        | <u>13 300</u> |
| Total compensation                                         | 49 467                  | 25 322                                                                                  | <u>19 140</u>                          | <u>93 929</u> |
| Administrative costs                                       | 814                     | 321                                                                                     |                                        |               |
|                                                            | <u>50 281</u>           | <u>25 643</u>                                                                           |                                        |               |
| Contributions received during fiscal year                  | <u>(32 091)</u>         | <u>(10 225)</u>                                                                         |                                        |               |
| Contributions receivable                                   | <u>18 190</u>           | <u>15 418</u>                                                                           |                                        |               |

**9. CONTRIBUTION TO PAYMENT OF THE CANADIAN AGRICULTURAL INCOME STABILIZATION PROGRAM**

|      |                |
|------|----------------|
| 2003 | 125 487        |
| 2004 | <u>819</u>     |
|      | <u>126 306</u> |

By the current fiscal year, more than 70% of the files for 2003 had been processed, close to half of which received a government contribution. Unprocessed files are not recorded, given that it is impossible to establish a reasonable estimate on the date the financial statements were prepared. Program expenses and related federal contribution will be recorded once they are known.

**10. GOVERNMENT OF CANADA TRANSITION ASSISTANCE PROGRAM**

The amount was paid to operations having participated in the Farm Income Stabilization Account.

Moreover, the previous year, \$12 522 M was allocated to Farm Income Stabilization Insurance Program participants as a discount on the premium for the 2002-2003 program year. Almost all of the discount was granted in the current fiscal year.

**LA FINANCIÈRE AGRICOLE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

**11. INDUSTRY TRANSITION ASSISTANCE PROGRAM**

Payments were made:

|                                                                            |               |
|----------------------------------------------------------------------------|---------------|
| To operations having participated in the Farm Income Stabilization Account | 5 216         |
| To bovine-sector operations                                                | 64 445        |
|                                                                            | <u>69 661</u> |

Further, \$5 106 M was allocated to the Farm Income Stabilization Insurance Program participants as a discount on the premium for the 2003-2004 program year. Almost 50% of the discount was granted in the current fiscal year.

**12. ADMINISTRATIVE EXPENSES**

|                                                | <u>2005</u>   | <u>2004</u>   |
|------------------------------------------------|---------------|---------------|
| Salaries and fringe benefits                   | 42 134        | 40 873        |
| Transport and communication                    | 4 134         | 3 174         |
| Rent                                           | 3 389         | 3 338         |
| Professional administrative and other services | 10 349        | 1 607         |
| Materials and supplies                         | 824           | 701           |
| Amortization of fixed assets                   | 734           | 747           |
| Amortization of intangible assets              | 738           | 868           |
| Maintenance and repairs                        | 308           | 162           |
| New layout expenses                            | 1 872         | 1 465         |
|                                                | <u>64 482</u> | <u>52 935</u> |

Administrative expenses break down as follows:

|                                                    | <u>2005</u>   | <u>2004</u>   |
|----------------------------------------------------|---------------|---------------|
| Farm Income Insurance Stabilization Program        | 8 181         | 8 927         |
| Crop Insurance Program                             | 14 387        | 15 290        |
| Canadian Agricultural Income Stabilization Program | 19 107        | 2 338         |
| BSE Recovery Program                               | 37            | 1 357         |
| Farm Income Stabilization Account                  | 1 033         | 2 212         |
| Forest and Farm Financing                          | 19 879        | 21 063        |
| Canadian Agricultural Income Program               |               | 839           |
| Industry transitional assistance program           | 804           |               |
| Capital Financière agricole inc.                   | 1 054         | 909           |
|                                                    | <u>64 482</u> | <u>52 935</u> |

**13. SURPLUS APPROPRIATED TO THE GENERAL RESERVE**

La Financière agricole du Québec set up a general reserve to cover the risks related to its contribution to the Farm Income Stabilization Insurance Program. As at March 31, 2005, the surplus assigned to the general reserve was \$88 372 M (2004: \$78 122 M).

# LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

### 14. SHORT-TERM INVESTMENTS

#### La Financière agricole du Québec

|                                                                     | 2005          | 2004          |
|---------------------------------------------------------------------|---------------|---------------|
| Discount notes – related parties                                    |               | 9 483         |
| Bonds, 2.86% to 3.31%, maturing up to<br>October 1, 2007            | 13 877        |               |
| Commercial papers, 2.07% to 3.08%,<br>maturing up to March 30, 2006 | 13 981        | 65 726        |
| Floating-rate corporate bond, 2.75%<br>maturing April 18, 2005      | 5 000         | 15 000        |
|                                                                     | <u>32 858</u> | <u>90 209</u> |

#### Farm Income Stabilization Insurance

|                                                                  | 2005         | 2004          |
|------------------------------------------------------------------|--------------|---------------|
| Floating-rate corporate bond, 2.75%<br>maturing April 18, 2005   | 3 000        | 10 000        |
| Caisse de dépôt et placement du Québec:<br>Demand deposits, 2.5% | 1 398        | 290           |
|                                                                  | <u>4 398</u> | <u>10 290</u> |

### 15. ADVANCES TO PARTICIPANTS

Advances to participants represent a portion of the compensation paid under the following programs:

Canadian Agricultural Income Stabilization Program:

Advance under section 3.10.1 of the program guidelines to operations  
in the bovine and other ruminants sector for 2004

Flue-cured tobacco production withdrawal program

27 006

2 861

29 867

### 16. FÉDÉRATION DES PRODUCTEURS ACÉRIQUES DU QUÉBEC RECEIVABLE

On March 11 mars 2005, La Financière agricole and the Fédération des producteurs acéricoles du Québec signed a new credit agreement for a maximum amount of \$100 million (2004: \$100 million). This special financing measure is designed to fund the operations of a sales agency for the maple products sector, whose activities are related to the Fédération des producteurs acéricoles du Québec.

|                                                                               | 2005          | 2004          |
|-------------------------------------------------------------------------------|---------------|---------------|
| Bearing interest at the prime rate minus 0.25%,<br>maturing February 28, 2006 | <u>30 000</u> | <u>21 000</u> |

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**17. FARM INCOME STABILIZATION INSURANCE FUND RECEIVABLE**

|                                                                                                                | 2005    | 2004    |
|----------------------------------------------------------------------------------------------------------------|---------|---------|
| Bearing interest at rates varying between 2.37% and 3.03%<br>maturing February 27, 2006, repayable at maturity | 390 617 | 326 146 |

**18. GOUVERNEMENT DU QUÉBEC RECEIVABLE**

|                                                              | 2005   | 2004   |
|--------------------------------------------------------------|--------|--------|
| Contributions receivable – BSE programs (Note 8)             | 670    | 15 418 |
| Accumulated sick leave paid by the Gouvernement<br>du Québec | 6 541  | 8 817  |
| Operations related to forestry-sector financing              | 7 211  | 161    |
|                                                              | 24 396 |        |
| Portion maturing in the short-term                           | 1 785  | 17 966 |
|                                                              | 5 426  | 6 430  |

**19. GOUVERNEMENT DU CANADA RECEIVABLE**

|                                                                                                                             | 2005   | 2004   |
|-----------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Federal-Provincial agreement setting up the Canadian Agricultural<br>Income Program                                         |        | 1 363  |
| Canada-Québec agreement on an additional federal contribution<br>to the Farm Income Stabilization Insurance Plan            |        | 8 371  |
| Federal-Provincial-Territorial framework agreement on the farm and<br>agrifood strategic framework for the 21st century on: |        |        |
| Production insurance                                                                                                        | 6 153  |        |
| Canadian Agricultural Income Stabilization Program                                                                          | 32 585 | 1 415  |
| Canada-Québec agreement setting up the BSE Recovery Program<br>(Note 8)                                                     | 17     | 18 190 |
| Canada-Québec agreement on transition assistance                                                                            | 43     |        |
| Canada-Québec agreement on industry transition assistance                                                                   | 57     |        |
|                                                                                                                             | 38 855 | 29 339 |

**20. LOANS**

|                                                | 2005   | 2004   |
|------------------------------------------------|--------|--------|
| Balance of loans bearing interest at rates of: |        |        |
| 2.5%                                           | 4 984  | 6 139  |
| 5%                                             | 1 284  | 1 533  |
| 7%                                             | 1 134  | 1 335  |
| 8%                                             | 4 388  | 5 724  |
| Prime rate plus 0.5%                           | 203    | 263    |
|                                                | 11 993 | 14 994 |
| Portion maturing in the short term             | 1 551  | 1 761  |
|                                                | 10 442 | 13 233 |



## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**20. LOANS (cont'd)**

Balance of loans maturing in:

|                   | 2005          | 2004          |
|-------------------|---------------|---------------|
| Less than 1 year  | 26            | 42            |
| 1 to 5 years      | 2 000         | 1 945         |
| More than 5 years | 9 967         | 13 007        |
|                   | <u>11 993</u> | <u>14 994</u> |

Capital 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.

**21. INVESTMENTS****La Financière agricole du Québec**

|                                                             | 2005         | 2004         |
|-------------------------------------------------------------|--------------|--------------|
| Common shares – portfolio investments                       | 339          | 350          |
| Common shares – satellite corporation                       | 200          | 125          |
|                                                             | <u>539</u>   | <u>475</u>   |
| Debentures, 9% and 15%, maturing up to February 2014        |              |              |
| Capital and capitalizable interest are cashable as follows: |              |              |
| \$235 409 in 2006, \$529 496 in 2007,                       |              |              |
| \$694 419 in 2008, \$788 321 in 2009                        |              |              |
| and \$2 377 654 in future fiscal years                      | 4 625        | 2 873        |
| Provision for losses                                        | <u>728</u>   | <u>2 873</u> |
|                                                             | 3 897        | 2 873        |
| Portion maturing in the short-term                          | <u>235</u>   | <u>76</u>    |
|                                                             | <u>3 662</u> | <u>2 797</u> |
|                                                             | <u>4 201</u> | <u>3 272</u> |

At March 31, 2005, debentures posted under a provision for losses totalled \$728 M.

Under a Gouvernement du Québec order-in-council, dated December 11, 2002, the Société and its subsidiary Capital Financière agricole inc. (the Group) are authorized to grant loans, advances and contributions, and to make financial commitments to physical persons, legal persons or corporations for an amount not to exceed \$5 million. Further, the Group cannot hold more than 49% of the voting shares of a corporation or legal person.

**LA FINANCIÈRE AGRICOLE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**21. INVESTMENTS (cont'd)****Farm Insurance Fund**

Participation deposits are invested in a special fund with the Caisse de dépôt et placement du Québec and are expressed in units. These units may be reimbursed with advance notice according to the terms and conditions of Caisse rules at the market value of the special fund's net equity level at the end of each month. Demand deposits, presented under short-term investments, are also invested in a special fund.

|                                                      | 2005          | 2004          |
|------------------------------------------------------|---------------|---------------|
| Participation deposits at fair value (2004: at cost) | <u>66 856</u> | <u>17 641</u> |

**22. ASSETS DESTINED FOR SALE**

On September 24, 2004, the Société sold the asset block acquired in March 2004 representing an operating unit in the hog industry for \$474 971. The gain on the sale for \$104 971 was remitted to the lender to reimburse a loan guaranteed by the Farm and Forest Financing Fund under section 18 of the Act respecting farm-loan insurance and forestry-loan insurance.

**23. FIXED ASSETS**

|           | 2005  |                          |       | 2004  |
|-----------|-------|--------------------------|-------|-------|
|           | Cost  | Accumulated depreciation | Net   | Net   |
| Equipment | 2 614 | 1 422                    | 1 192 | 1 233 |

**24. INTANGIBLE ASSETS**

|                      | 2005  |                          |       | 2004  |
|----------------------|-------|--------------------------|-------|-------|
|                      | Cost  | Accumulated depreciation | Net   | Net   |
| Computer development | 5 581 | 3 359                    | 2 222 | 2 227 |

**25. SHORT-TERM BORROWINGS**

|                                       | 2005           | 2004           |
|---------------------------------------|----------------|----------------|
| Bankers' acceptances                  |                | 50 000         |
| Discount notes – related parties      | 19 977         | 149 700        |
| Notes at par value                    |                |                |
| Gouvernement du Québec Financing Fund | <u>291 000</u> |                |
| 2.64% to 2.99%                        | <u>310 977</u> | <u>199 700</u> |

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

#### 25. SHORT-TERM BORROWINGS (cont'd)

Under Gouvernement du Québec orders-in-council dated December 11, 2002 and February 26, 2003, the Société and its subsidiary Capital Financière agricole inc. are authorized to contract short-term borrowings up to a total of \$383 million until March 31, 2008 from financial institutions and other lenders or from the Gouvernement du Québec Financing Fund. The total short-term borrowings outstanding for both corporations may not exceed these limits.

At March 31, 2005, the Société held financial agreements with four financial institutions and the Financing Fund for authorized amounts totalling \$663 million dollars et 383 millions de dollars. The amounts used bear interest at the lender's base rate.

#### 26. ACCOUNTS PAYABLE FOR ACCRUED LIABILITY

##### La Financière agricole du Québec

|                                                                                   | 2005          | 2004          |
|-----------------------------------------------------------------------------------|---------------|---------------|
| Remuneration                                                                      | 2 371         | 2 437         |
| Operations                                                                        | 3 948         | 2 157         |
| Contribution to payment of accrued interest and interest due                      | 1 388         | 1 730         |
| Subvention – Young farmers' financial support program                             | 5 767         | 6 987         |
| Contribution to payment of the Canadian Agricultural Income Stabilization Program | 8 867         |               |
| Interest on short-term borrowings                                                 | 1 614         |               |
| Other                                                                             | 467           | 171           |
|                                                                                   | <u>24 422</u> | <u>13 482</u> |

##### Farm Income Stabilization Insurance Fund

|                                                                                     | 2005         | 2004          |
|-------------------------------------------------------------------------------------|--------------|---------------|
| Contribution credits for amounts received under Canada Québec agreements on:        |              |               |
| the additional federal contribution to the Farm Income Stabilization Insurance Plan | 1 073        | 13 908        |
| Transition assistance                                                               | 93           | 12 557        |
| Industry transition assistance program                                              | 2 375        |               |
| Accounts payable                                                                    | 1 214        | 1 723         |
|                                                                                     | <u>4 755</u> | <u>28 188</u> |

Credits for contributions are remitted to farm operations when advances and final settlements are paid.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

## 27. DEFERRED FEDERAL ASSISTANCE

## La Financière agricole du Québec

|                                                                                                                                     | 2005          | 2004          |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Canada-Québec agreement on transition assistance to operations having participated in the Farm Income Stabilization Account         |               | 11 000        |
| Contribution to advances to the Canadian Agricultural Income Stabilization Program under section 3.10.1 of the guidelines (Note 15) | 16 204        |               |
|                                                                                                                                     | <u>16 204</u> | <u>11 000</u> |

## Crop Insurance Fund

On July 22, 2004, the Government of Canada remitted to the Crop Insurance Fund its share in the Tripartite Gross Crop Income Insurance Plan Fund in the amount of \$7 884 M under an operational document related to the Canada-Québec agreement on production insurance. The agreement states that Québec pledges to use these funds to cover the additional risks linked to development of new grain and oilseed crops. The Fund was liquidated on this date and \$6 311 M, calculated by consolidating previous years, was paid to La Financière agricole du Québec.

## 28. OWING TO THE GOUVERNEMENT OF CANADA

|                                                  | 2005       | 2004         |
|--------------------------------------------------|------------|--------------|
| Canada-Québec agreement on transition assistance | 203        | 6 507        |
| Net Income Stabilization Account                 | 53         |              |
| Production Insurance Program                     |            | 455          |
|                                                  | <u>256</u> | <u>6 962</u> |

## 29. OWING TO THE FUND

|                                                                                          | 2005          | 2004           |
|------------------------------------------------------------------------------------------|---------------|----------------|
| Farm Income Stabilization Insurance Fund:                                                |               |                |
| Interest-free, no repayment terms                                                        | 19 831        | 33 561         |
| Crop Insurance Fund:                                                                     |               |                |
| Interest-free, no repayment terms                                                        | 8 249         | 390            |
| Bearing interest at rate of 2.59%, maturing April 29, 2005                               | 5 400         | 40 900         |
|                                                                                          | <u>13 649</u> | <u>41 290</u>  |
| Farm Income Stabilization Account Fund:                                                  |               |                |
| Interest-free, no repayment terms                                                        |               | 12 800         |
| Bearing interest at one-year guaranteed investment certificate rates, no repayment terms | 4 820         | 12 504         |
|                                                                                          | <u>4 820</u>  | <u>25 304</u>  |
| Tripartite Gross Crop Income Insurance Plan Fund (Government of Canada):                 |               | 7 827          |
|                                                                                          | <u>38 300</u> | <u>107 982</u> |

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

#### 30. GOUVERNEMENT DU QUÉBEC ADVANCE

|                                                                                                                                                                                                                                                                                                                                                          | 2005          | 2004          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Interest-free, no repayment terms                                                                                                                                                                                                                                                                                                                        | 4 194         | 4 128         |
| Agreed to for constitution of subsidiary, bearing interest at the lesser of 50% of the net annual profit made by the subsidiary or the proportion of the net annual profit made by the subsidiary equivalent to the ratio of the advance over the subsidiary's total assets, maturing the date the subsidiary is dissolved, no later than March 31, 2008 | 12 000        | 12 000        |
|                                                                                                                                                                                                                                                                                                                                                          | <u>16 194</u> | <u>16 128</u> |

#### 31. PROVISION FOR SICK LEAVE

|                               | 2005          | 2004          |
|-------------------------------|---------------|---------------|
| Opening balance               | 12 956        | 10 662        |
| Charge for the year           | 1 403         | 3 048         |
| Benefits paid during the year | (846)         | (754)         |
| Closing balance               | <u>13 513</u> | <u>12 956</u> |

#### 32. CONTRIBUTIONS AND COMPENSATION

Since the implementation of the Canadian Agricultural Income Stabilization Program, Farm Income Stabilization Insurance Program participants participate in both of these programs designed to stabilize farm operations' incomes. To avoid duplicating payment of a government contribution, the amounts granted under one program are taken into account for payments under the other.

Compensation and contributions for the fiscal year are reduced by \$170 866 M following payments under the CAISP.

#### 33. 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.

|                                         | 2005           | 2004           |
|-----------------------------------------|----------------|----------------|
| Grain, grain-corn and soybean producers | 174 017        | 140 687        |
| Potato producers                        | 9 004          | 2 176          |
| Apples                                  | 4 778          |                |
|                                         | <u>187 799</u> | <u>142 863</u> |

**LA FINANCIÈRE AGRICOLE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**34. COMMITMENTS**

La Financière agricole commitments under the Young farmers' financial support program, as capital subsidies posted to fiscal years ending March 31, 2006, 2007 and 2008, total \$6 886 M (2004: \$5 993 M).

Commitments related to the Centre d'études sur les coûts de production en agriculture for fiscal 2005-2006 total \$1 100 M (2004: \$1 100 M). Additional commitments as yet to be determined are also envisaged for the next two fiscal years.

The Société and the Fédération des producteurs de cultures commerciales du Québec signed a five-year agreement regarding a contribution to Fédération financing. This agreement follows on the liquidation of the Tripartite Gross Crop Income Insurance Plan, under which interest from Government of Canada participation was paid to the Fédération under an agreement. The annual amount depended on the Caisse de dépôt et placement du Québec demand deposit rate and was \$177 M for the current fiscal year.

**35. PENSION PLANS**

The staff members of La Financière agricole participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

La Financière agricole contributions charged to the year-end statement amount to \$1 551 M (2004: \$1 284 M). The liability of La Financière agricole towards these Government plans is restricted to its contributions as an employer.

**36. RELATED PARTY TRANSACTIONS**

The main related party transactions are as follows:

|                                                                                                      | 2005  | 2004  |
|------------------------------------------------------------------------------------------------------|-------|-------|
| Rent and new layout expenses - Société immobilière du Québec                                         | 4 947 | 4 360 |
| Supplies – Government Services Fund                                                                  | 1 658 | 1 442 |
| Contribution to financing organizations – Centre d'études sur les coûts de production en agriculture | 1 100 | 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 either joint control or significant influence by it. La Financière agricole 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 consolidated financial statements.

**37. 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.

The long-term financial instruments held by the Société have no stock price. Consequently, the fair value of some of these instruments has been determined using evaluation methods used on the venture-capital market. The following calculation methods and assumptions were used:

- The fair value of fixed-rate loans was obtained by actualizing cash flows at the interest rate in effect on the market at the fiscal year-end for the corresponding terms. The fair value of variable-rate loans is presumed to equal their book value.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

### 37. FINANCIAL INSTRUMENTS (cont'd)

#### Fair value (cont'd)

- Common shares in private-capital firms are presented at acquisition cost unless a concrete, quantifiable even with a significant impact on the firm's value justifies an increase or decrease in value. However, if certain instruments remain at acquisition cost for a period exceeding 36 months due to the absence of events, they will be evaluated in greater detail.
- The fair value of debentures is obtained by capitalizing cash flows at the market interest rate at year-end for corresponding terms. However, this calculation does not take into account future levies envisaged in certain debenture agreements given the lack of accurate information for capitalizing these cash flows.

The fair values of the receivable and Gouvernement du Québec advance cannot reasonable be estimated given the absence of a market.

|                                   | 2005       |            | 2004       |            |
|-----------------------------------|------------|------------|------------|------------|
|                                   | Book value | Fair value | Book value | Fair value |
| Loans                             | 11 993     | 11 488     | 14 994     | 14 524     |
| Common shares                     | 539        | 539        | 475        | 475        |
| Debentures                        | 3 897      | 3 763      | 2 873      | 2 552      |
| Gouvernement du Québec receivable | 5 426      | 5 426      | 6 430      | 6 430      |
| Gouvernement du Québec advance    | 16 194     | 16 194     | 16 128     | 16 128     |

#### Credit risk

The Société is exposed to a credit risk linked to reimbursements of investments in debentures. Consequently, during the year, it performs an ongoing valuation and, where necessary, posts a provision for doubtful debts. These assets are presented at book value in the balance sheet.

The Société is exposed to the economic conditions affecting the sectors in which it exercises its activities. Their total portfolio value is distributed among the following three sectors:

|                         |       |
|-------------------------|-------|
| Food processing         | 71.6% |
| Food distribution       | 15.1% |
| Agricultural production | 13.3% |

#### Interest rate risk

The Société is exposed to an interest rate risk linked to market fluctuations, which may impact cash flows generated by an increase in the contribution to interest payments.

### 38. COMPARATIVE FIGURES

Certain figures from previous fiscal years were reclassified for consistency with this year.

## LA FINANCIÈRE AGRICOLE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

## 39. CONTINUITY BY FARM INCOME STABILIZATION INSURANCE FUND INSURABLE PRODUCT

| <u>Insurable product</u>       | Balance<br>surplus<br>(deficit)<br>as at<br>March 31,<br>2004 | Contributions  | Allowances     | Interest and<br>other<br>expenses | Balance<br>surplus<br>(deficit)<br>as at<br>March 31,<br>2005 |
|--------------------------------|---------------------------------------------------------------|----------------|----------------|-----------------------------------|---------------------------------------------------------------|
| Feeder calves                  | (14 140)                                                      | 36 551         | 70 908         | (530)                             | (49 027)                                                      |
| Slaughter cattle and steers    | (3 627)                                                       | 31 524         | 52 062         | (320)                             | (24 485)                                                      |
| Veal calves                    | 2 368                                                         | 15 569         | 29 685         | (63)                              | (11 811)                                                      |
| Grain-fed calves               | 2 577                                                         | 9 632          | 9 315          | 16                                | 2 910                                                         |
| Piglets                        | (54 086)                                                      | 16 392         | (31 473)       | (300)                             | (6 521)                                                       |
| Hogs                           | (93 863)                                                      | 12 533         | (44 965)       | (2 153)                           | (38 518)                                                      |
| Lambs                          | (704)                                                         | 11 970         | 11 650         | 42                                | (342)                                                         |
| Potatoes                       | 9 307                                                         | (934)          | 12 331         | (2)                               | (3 960)                                                       |
| Grain, grain-corn and soybeans | (219 199)                                                     | 246 435        | 205 731        | (4 446)                           | (182 941)                                                     |
| Apples                         | (1 024)                                                       | 3 034          | 1 272          | (34)                              | 704                                                           |
|                                | <u>(372 391)</u>                                              | <u>382 706</u> | <u>316 516</u> | <u>(7 790)</u>                    | <u>(313 991)</u>                                              |

| <u>Insurable product</u>    | <u>Current insurance year</u> | <u>Period covered by insurance year</u> |
|-----------------------------|-------------------------------|-----------------------------------------|
| Feeder calves               | 2004                          | January 1, 2004 to December 31, 2004    |
| Slaughter cattle and steers | 2004                          | January 1, 2004 to December 31, 2004    |
| Veal calves                 | 2004                          | January 1, 2004 to December 31, 2004    |
| Grain-fed calves            | 2004                          | January 1, 2004 to December 31, 2004    |
| Piglets                     | 2004                          | April 1, 2004 to December 31, 2004      |
| Hogs                        | 2004                          | April 1, 2004 to December 31, 2004      |
| Lambs                       | 2004                          | January 1, 2004 to December 31, 2004    |
| Potatoes                    | 2003                          | August 1, 2003 to July 31, 2004         |
| Grain                       | 2003                          | August 1, 2003 to July 31, 2004         |
| Grain-corn                  | 2003                          | October 1, 2003 to September 30, 2004   |
| Soybeans                    | 2003                          | September 1, 2003 to August 31, 2004    |
| Canola                      | 2003                          | August 15, 2003 to August 14, 2004      |
| Apples                      | 2003                          | August 15, 2003 to August 14, 2004      |

## 40. CONTINUITY BY CROP INSURANCE FUND SYSTEM

|                   | <u>Insurance year 2004</u>                    |               |               |                                                               |
|-------------------|-----------------------------------------------|---------------|---------------|---------------------------------------------------------------|
|                   | Adjusted<br>balance as at<br>April 1,<br>2004 | Contributions | Allowances    | Interest,<br>investment<br>income and<br>other<br>adjustments |
| Group system      | 51 712                                        | 18 854        | 26 887        | 7 814                                                         |
| Individual system | 19 645                                        | 34 581        | 29 496        | (1 761)                                                       |
|                   | <u>71 357</u>                                 | <u>53 435</u> | <u>56 383</u> | <u>6 053</u>                                                  |
|                   |                                               |               |               | <u>74 462</u>                                                 |

At March 31, 2004, the balances of the group and individual plans were \$48 738 M and 16 544 M respectively.



**LA FINANCIÈRE AGRICOLE DU QUÉBEC****MANAGEMENT'S REPORT**

---

The financial statements of La Financière agricole du Québec and the funds it administers were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted 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 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.

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 carry out 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 oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the budgetary monitoring and audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors

The Auditor General of Québec has audited the financial statements of La Financière agricole du Québec and the funds it administers in accordance with the auditing standards that are generally accepted in Canada. 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 audit committee to discuss any matter related to the audit.

On behalf of La Financière agricole du Québec and the funds it administers,  
Jacques Brind'Amour, President and Chief Executive Officer  
Sylvie Grondin, FCGA, Vice-President, Corporate Affairs

Québec, May 20, 2005

**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, the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund, and the Farm Income Stabilization Account as at March 31, 2005 and the consolidated statements of revenue and expenditure and surplus and cash flows of La Financière agricole du Québec, the statement of revenue and expenditure and surplus of the Crop Insurance Fund, and the statement of revenue and expenditure and deficit of the Farm Income Stabilization Insurance Fund and changes in the balance of the Farm Income Stabilization Account for the year then ended. These financial statements are the responsibility of management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of La Financière agricole du Québec and the funds it administers as at March 31, 2005 and the results of their operations and cash flows 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, given the retroactive application of the change in accounting policy made in evaluating Crop Insurance Fund investments disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Acting Auditor General of Québec

Québec, May 20, 2005

**LOTO-QUÉBEC**  
(R.S.Q., c. S-13.1)

**CONSOLIDATED STATEMENT OF INCOME**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                          | 2005      | 2004      |
|------------------------------------------|-----------|-----------|
| <b>REVENUES</b>                          | 3 937 464 | 3 760 743 |
| <b>COST OF SALES</b> (Note 3)            | 1 461 589 | 1 463 463 |
| <b>GROSS PROFIT</b>                      | 2 475 875 | 2 297 280 |
| <b>OPERATING EXPENSES</b>                |           |           |
| Operating expenditures                   | 659 044   | 603 185   |
| Depreciation of fixed assets             | 86 077    | 80 150    |
| Amortization of deferred charges         | 1 028     | 2 050     |
| Interest – net (Note 4)                  | 9 733     | 12 177    |
|                                          | 755 882   | 697 562   |
| <b>INCOME BEFORE THE FOLLOWING ITEMS</b> | 1 719 993 | 1 599 718 |
| Special payments (Note 5)                | 29 079    | 28 165    |
| Goods and Services Tax                   | 50 234    | 49 553    |
| Québec Sales Tax                         | 57 547    | 56 750    |
|                                          | 136 860   | 134 468   |
| <b>NET INCOME</b>                        | 1 583 133 | 1 465 250 |

**SEGMENTED INFORMATION** (Note 20)

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

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                             | 2005        | 2004        |
|-------------------------------------------------------------|-------------|-------------|
| <b>BALANCE AT BEGINNING OF YEAR</b>                         | 134 547     | 234 565     |
| Net income                                                  | 1 583 133   | 1 465 250   |
|                                                             | 1 717 680   | 1 699 815   |
| Dividends                                                   | (1 511 000) | (1 493 000) |
| Fonds d'aide à l'action communautaire autonome (Note 6)     | (13 185)    | (13 559)    |
| Fonds d'aide à l'action humanitaire internationale (Note 6) | (2 637)     | (2 712)     |
| Contributions to the Québec Government (Note 7)             | (56 006)    | (55 997)    |
|                                                             | (1 582 828) | (1 565 268) |
| <b>BALANCE AT END OF YEAR</b>                               | 134 852     | 134 547     |

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

**LOTO-QUÉBEC**

CONSOLIDATED BALANCE SHEET  
as at March 31, 2005  
(in thousands of dollars)

|                                                    | 2005           | 2004             |
|----------------------------------------------------|----------------|------------------|
| <b>ASSETS</b>                                      |                |                  |
| <b>Current</b>                                     |                |                  |
| Cash on hand – Casinos                             | 47 139         | 52 586           |
| Cash on hand                                       | 26 671         | 14 001           |
| Accounts receivable (Note 8)                       | 44 603         | 71 085           |
| Inventory (Note 9)                                 | 16 800         | 14 312           |
| Prepaid expenses                                   | 19 012         | 24 132           |
|                                                    | <u>154 225</u> | <u>176 116</u>   |
| <b>Investments</b>                                 | 39 761         | 39 711           |
| <b>Fixed assets</b> (Note 10)                      | 748 323        | 793 546          |
| <b>Deferred charges, amortized</b>                 |                | <u>1 028</u>     |
|                                                    | <u>942 309</u> | <u>1 010 401</u> |
| <b>LIABILITIES</b>                                 |                |                  |
| <b>Current</b>                                     |                |                  |
| Bank loans (Note 11)                               | 499 365        | 602 787          |
| Prizes payable                                     | 53 360         | 69 313           |
| Accounts payable and accrued liabilities (Note 12) | 224 693        | 175 349          |
| Provisions related to prizes (Note 13)             | 10 843         | 9 807            |
| Deferred income                                    | 19 026         | 18 428           |
|                                                    | <u>807 287</u> | <u>875 684</u>   |
| <b>SHAREHOLDER'S EQUITY</b>                        |                |                  |
| Capital-stock authorized, issued and fully paid:   |                |                  |
| 1 700 shares with a par value                      |                |                  |
| of \$100 each                                      | 170            | 170              |
| Retained earnings                                  | <u>134 852</u> | <u>134 547</u>   |
|                                                    | <u>135 022</u> | <u>134 717</u>   |
|                                                    | <u>942 309</u> | <u>1 010 401</u> |

**COMMITMENTS** (Note 14)

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

On behalf of the Board of Directors,  
Alain Cousineau, Chairman of the Board  
Robert Crevier, Member of the Board

**LOTO-QUÉBEC**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                      | <u>2005</u>          | <u>2004</u>          |
|----------------------------------------------------------------------|----------------------|----------------------|
| <b>OPERATING ACTIVITIES</b>                                          |                      |                      |
| Net income                                                           | 1 583 133            | 1 465 250            |
| Items not affecting cash flows:                                      |                      |                      |
| Depreciation of fixed assets                                         | 86 077               | 80 150               |
| Amortization of deferred charges                                     | 1 028                | 2 050                |
| Net contribution to the Manoir Richelieu LP                          | 5 416                | 4 869                |
| Changes in assets and liabilities related to operations<br>(Note 16) | <u>21 613</u>        | <u>24 816</u>        |
| Operating activity cash flows                                        | <u>1 697 267</u>     | <u>1 577 135</u>     |
| <b>FINANCING ACTIVITIES</b>                                          |                      |                      |
| Dividends paid                                                       | (1 465 000)          | (1 457 000)          |
| Bank loans                                                           | (103 422)            | 83 611               |
| Contributions to the Québec Government                               | (56 006)             | (55 997)             |
| Fonds d'aide à l'action communautaire autonome                       | (13 185)             | (13 559)             |
| Fonds d'aide à l'action humanitaire internationale                   | <u>(2 637)</u>       | <u>(2 712)</u>       |
| Financing activity cash flows                                        | <u>(1 640 250)</u>   | <u>(1 445 657)</u>   |
| <b>INVESTMENT ACTIVITIES</b>                                         |                      |                      |
| Acquisition of fixed assets (Note 16)                                | (42 704)             | (138 650)            |
| Deposits for the acquisition of fixed assets                         |                      | (212)                |
| Acquisition of investments                                           | (3 005)              | (237)                |
| Distribution to the Manoir Richelieu LP                              | (4 803)              | (4 307)              |
| Distribution of the Manoir Richelieu LP                              | <u>718</u>           | <u>762</u>           |
| Investment activity cash flows                                       | <u>(49 794)</u>      | <u>(142 644)</u>     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                     | 7 223                | (11 166)             |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>            | <u>66 587</u>        | <u>77 753</u>        |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR (Note 16)</b>        | <u><u>73 810</u></u> | <u><u>66 587</u></u> |

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

**LOTO-QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

(in thousands of dollars)

**1. AUTHORITY AND OBJECTIVES**

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence. By virtue of the Income Tax Act (R.S.C. (1985), Ch. 1 (5<sup>th</sup> supplement)) and the Taxation Act (R.S.Q., Ch. I-3), the Corporation is exempt from paying income tax.

**2. ACCOUNTING POLICIES**

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with Canadian generally accepted accounting practices. These statements comprise amounts based on best judgement and estimates.

**Consolidation**

The consolidated financial statements include the accounts of Loto-Québec and its wholly owned subsidiaries:

- Lotim Inc.
- La Société des casinos du Québec Inc.
- Casiloc Inc.
- La Société des loteries vidéo du Québec Inc.
- Resto-Casino Inc.
- Ingenio, filiale de Loto-Québec Inc.
- La Société des bingos du Québec Inc.
- World Gaming Consultants Inc.
- 9059-3849 Québec Inc.
- Casino Mundial Inc.
- Nter Technologies LP
- Nter Technologies Inc.

The investments in the Manoir Richelieu Limited Partnership and the 9064-1812 Québec Inc. General Partnership are entered at their consolidated value.

**Revenues***Lotteries*

Gross revenue from the sale of lottery tickets and bingo cards is recorded on the date of the draw, with the exception of revenue from instant lottery ticket sales, which is entered at the time of sale.

With the exception of instant lotteries, lottery tickets sold as at March 31 for draws subsequent to that date are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

*Casinos and Video lotteries*

Revenue from the operation of these activity sectors corresponds to the difference between wagers and prizes awarded.

*Multimedia*

Revenues represent royalties based on a lump sum or a percentage of the total of the multimedia lottery retail price. These revenues are recorded when the printer delivers the multimedia lotteries to the lottery corporations.

**LOTO-QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**2. ACCOUNTING POLICIES (cont'd)****Cost of Sales***Lotteries and Bingo*

Prizes awarded from ticket sales for bingo are based on a theoretical sales rate.

In addition to lottery prizes in cash or merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the selling price and is included with sales as revenue and with prizes as expenditure.

*Casinos*

These amounts represent the promotional cash rebates issued to casino customers.

**Pension plans**

Defined contribution plan accounting is applied to inter-company governmental defined benefit plans, given that Loto-Québec does not have adequate information to apply defined benefit plan accounting practices.

**Inventory***Lotteries and Video Lotteries*

Inventories are valued at the lower of average cost and replacement value.

*Restaurants*

Inventories are valued at the lower of cost and net realizable value or replacement value. Cost is estimated as follows:

|                             |              |
|-----------------------------|--------------|
| Food and beverages,         | average cost |
| Hotel and kitchen equipment | base stock   |

**Fixed assets**

Fixed assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life based on the following methods and durations:

|                                | <u>Method</u>                            | <u>Duration</u>            |
|--------------------------------|------------------------------------------|----------------------------|
| Buildings                      | Straight-line<br>compound interest at 5% | 2% to 10%<br>40 years      |
| Parking lot landscaping        | Straight-line<br>compound interest at 5% | 2.5% and 6⅓%<br>40 years   |
| Rented parking lot landscaping | Straight-line                            | 2.86% and 6⅓%              |
| Interior design                | Straight-line<br>compound interest at 5% | 2.5% to 14.29%<br>40 years |
| Exterior landscaping           | Straight-line<br>compound interest at 5% | 10% and 14.29%<br>40 years |
| Leasehold improvements         | Straight-line                            | 10% to 20%                 |
| Office furniture               | Straight-line                            | 10% and 20%                |
| Rolling stock                  | Straight-line                            | 5% and 30%                 |
| Equipment                      | Straight-line                            | 10% to 50%                 |

**LOTO-QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**2. ACCOUNTING POLICIES (cont'd)****Fixed assets (cont'd)**

Work in progress will be amortized upon commencement of use.

The Corporation continuously evaluates the book value of its fixed assets. In order to determine if the value has decreased, management evaluates the estimated undiscounted cash flows which will be generated by these fixed assets, while also taking other factors into account. Any permanent drop in the book values of fixed assets is charged to the results for the period during which the drop in value occurred.

**Deferred charges**

Start-up costs related to the Resort Complex and expansion of the Casino du Lac-Leamy are amortized using the straight-line method over a three-year period.

**Cash and cash equivalents**

The policy of the Corporation is to present, as cash and cash equivalents, the Casinos' cash in hand, bank balances and temporary investments readily convertible into a known cash amount whose value is not likely to change significantly.

**3. COST OF SALES**

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Lotteries                     |                  |                  |
| Prizes awarded                | 964 397          | 962 692          |
| Commissions to retailers      | 126 745          | 123 595          |
| Printing of tickets           | 32 486           | 35 862           |
|                               | <u>1 123 628</u> | <u>1 122 149</u> |
| Casinos, Restaurants, Lodging |                  |                  |
| Promotional allowances        | 19 137           | 19 577           |
| Restaurants                   | 26 227           | 24 207           |
|                               | <u>45 364</u>    | <u>43 784</u>    |
| Video Lotteries               |                  |                  |
| Commissions to retailers      | 272 115          | 276 842          |
| Printing                      | 1 050            | 1 132            |
|                               | <u>273 165</u>   | <u>277 974</u>   |
| Bingo                         |                  |                  |
| Prizes awarded                | 16 574           | 16 734           |
| Commissions to operators      | 2 082            | 2 091            |
| Printing of cards             | 776              | 731              |
|                               | <u>19 432</u>    | <u>19 556</u>    |
|                               | <u>1 461 589</u> | <u>1 463 463</u> |



**LOTO-QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**4. INTEREST – NET**

|                           | 2005         | 2004          |
|---------------------------|--------------|---------------|
| Interest on bank loans    | 10 267       | 13 112        |
| Interest on term deposits | (534)        | (935)         |
|                           | <u>9 733</u> | <u>12 177</u> |

**5. SPECIAL PAYMENTS**

|                                                             | 2005          | 2004          |
|-------------------------------------------------------------|---------------|---------------|
| Compensation to the Government of Canada                    | 14 457        | 14 247        |
| Net contribution to the Manoir Richelieu LP                 | 5 416         | 4 869         |
| Special commissions to non-profit organizations             | 1 120         | 842           |
| Compensations to participating non-profit organizations     | 7 314         | 7 386         |
| Compensations to non-participating non-profit organizations | 772           | 821           |
|                                                             | <u>29 079</u> | <u>28 165</u> |

**Compensation to the Government of Canada**

Under an agreement reached between the provincial governments and the Government of Canada concerning its withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of \$24 million in 1979 dollars every year. For the year ended March 31, 2005, this amounted to \$60.4 million (2004: \$59.4 million).

The Québec Government's share is payable by the Corporation in accordance with an agreement between the provinces and regional lottery corporations.

**Net Contribution to the Manoir Richelieu Limited Partnership**

Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be paid to the partners, taking into account Loto-Québec's share in the results generated by the Manoir Richelieu.

**Special Commissions to Non-Profit Organizations (NPOs)**

Further to a decision by the shareholder, a commission equal to the discount allotted to retailers is paid to non-profit organizations selling lottery tickets through the Lotomatique subscription system.

**Compensations to Non-Profit Organizations (NPOs)***Participating NPOs*

The Société des bingos du Québec Inc. allots charitable or religious organizations that hold a bingo license an amount equal to the higher of 36.4% of bingo ticket sales less the value of prizes paid to game winners, or 50% of net income generated by bingo games, not counting compensation to non-participating NPOs.

*Non-Participating NPOs*

The Société des bingos du Québec Inc. allots an amount equal to 5.45% of total ticket sales of the Le Grand Tour game (less the value of prizes awarded to winners of this game) to charitable or religious organizations that hold a bingo license but do not participate in the Corporation's bingo games.

**LOTO-QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

**6. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME AND  
 FONDS D'AIDE À L'ACTION HUMANITAIRE INTERNATIONALE**

Under its act of incorporation, each year the Corporation pays into the Fonds d'aide à l'action communautaire autonome and the Fonds d'aide à l'action humanitaire internationale sums equivalent to 5% and 1% respectively of net income earned during the previous fiscal year through the operation of the State-run casinos and the businesses which are incidental to them.

**7. CONTRIBUTIONS TO THE QUÉBEC GOVERNMENT**

|                                                                           | 2005          | 2004          |
|---------------------------------------------------------------------------|---------------|---------------|
| Ministère de l'Agriculture, des Pêcheries et<br>de l'Alimentation (MAPAQ) | 5 500         | 5 500         |
| Ministère de la Santé et des Services sociaux                             | 47 000        | 47 000        |
| Ministère de la Sécurité publique                                         | 3 506         | 3 497         |
|                                                                           | <u>56 006</u> | <u>55 997</u> |

**8. ACCOUNTS RECEIVABLE**

|               | 2005          | 2004          |
|---------------|---------------|---------------|
| Wholesalers   | 18 735        | 28 654        |
| Retailers     | 15 081        | 27 967        |
| Miscellaneous | 10 787        | 14 464        |
|               | <u>44 603</u> | <u>71 085</u> |

**9. INVENTORY**

|                                   | 2005          | 2004          |
|-----------------------------------|---------------|---------------|
| Lotteries                         |               |               |
| Modules – Game terminals          | 3 357         | 119           |
| Video lotteries                   |               |               |
| Modules – Video lottery terminals | 4 163         | 5 161         |
| Restaurants                       |               |               |
| Food and beverages                | 6 079         | 5 831         |
| Kitchen and hotel equipment       | 3 201         | 3 201         |
|                                   | <u>9 280</u>  | <u>9 032</u>  |
|                                   | <u>16 800</u> | <u>14 312</u> |

**LOTO-QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**10. FIXED ASSETS**

|                                | 2005             |                             | 2004           |
|--------------------------------|------------------|-----------------------------|----------------|
|                                | Cost             | Depreciation<br>accumulated | Net            |
| Land                           | 32 105           |                             | 32 105         |
| Buildings                      | 290 035          | 79 825                      | 210 210        |
| Parking lot landscaping        | 128 378          | 54 020                      | 74 358         |
| Rented parking lot landscaping | 5 271            | 2 496                       | 2 775          |
| Interior design                | 179 649          | 85 768                      | 93 881         |
| Exterior landscaping           | 29 975           | 19 032                      | 10 943         |
| Leasehold improvements         | 35 167           | 23 633                      | 11 534         |
| Office furniture               | 28 278           | 17 748                      | 10 530         |
| Rolling stock                  | 1 075            | 838                         | 237            |
| Equipment                      | 558 839          | 321 364                     | 237 475        |
| Art works                      | 4 594            |                             | 4 594          |
| Work in progress               | 59 681           |                             | 59 681         |
|                                | <u>1 353 047</u> | <u>604 724</u>              | <u>748 323</u> |
|                                |                  |                             | <u>793 546</u> |

Work in progress represents the computer projects in development in the amount of \$42.3 million (2004: \$37.0 million), unused equipment in the amount of \$10.5 million (2004: \$14.2 million), and software in the amount of \$6.9 million (2004: \$5.8 million).

Equipment includes software at a cost of \$8.8 million (2004: \$6.7 million) and work terminated at a cost of \$7.1 million (2004: \$2.5 million), entirely amortized as at March 31, 2005.

**11. BANK LOANS**

Demand bank loans are authorized by the Québec Government for a maximum amount of \$700 million and bearing interest at market rates.

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                                   | 2005           | 2004           |
|-----------------------------------|----------------|----------------|
| Suppliers and accrued liabilities | 126 209        | 121 245        |
| Dividends                         | 82 000         | 36 000         |
| Manoir Richelieu LP               | 5 299          | 6 923          |
| Québec Sales Tax                  | 6 085          | 6 063          |
| Goods and Services Tax            | 5 100          | 5 118          |
|                                   | <u>224 693</u> | <u>175 349</u> |

**13. PROVISIONS RELATED TO PRIZES**

|                                         | 2005          | 2004         |
|-----------------------------------------|---------------|--------------|
| Provision for unclaimed prizes          | 10 436        | 5 372        |
| Provision for prize structure variances | 407           | 4 435        |
|                                         | <u>10 843</u> | <u>9 807</u> |

**LOTO-QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**13. PROVISIONS RELATED TO PRIZES (cont'd)**

The provision for unclaimed prizes is made up of unclaimed prizes from all Loto-Québec products, excluding Canada-wide games. This amount is used for the payment of bonuses and retailer prizes.

The provision for prize structure variances in bingo is made up of all differences between the theoretical amount of prizes to be awarded under the prize structure and the actual amount payable. Monies from this provision are used principally to offset occasional shortfalls arising from prize structures that exceed the forecast amount. With the approval of the Board of Directors, this provision may also be used for bonus prizes or for discharging any claims associated with the games, or it may be included in the results.

**14. COMMITMENTS****Leases**

Under an agreement expiring June 2008 with a five-year option to renew, the Corporation is committed to paying a minimum of \$32.6 million (2004: \$41.2 million) for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ National Inc., representing a consolidated commitment of \$16.3 million (2004: \$20.6 million). In addition, the Corporation is committed, under long-term leases expiring on various dates up until May 2035, to renting space for administrative offices. In certain cases, these leases have a two-to five-year renewal option.

The minimum rental payments (in thousands of dollars) are as follows:

|                     |                |
|---------------------|----------------|
| 2006                | 26 755         |
| 2007                | 24 018         |
| 2008                | 21 745         |
| 2009                | 15 983         |
| 2010                | 13 650         |
| 2011 and subsequent | 17 889         |
|                     | <u>120 040</u> |

**Contributions to the Québec Government***Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)*

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay an annual sum of \$5.5 million into a designated fund each calendar year for five years, until 2008. Upon expiry, the agreement will be renewable by mutual consent of the parties.

*Ministère de la Santé et des Services sociaux*

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay a total of \$17 million annually into a designated fund to finance prevention activities, treatment services, research programs and information campaigns to help compulsive gamblers.

Moreover, the Corporation has also given its commitment to the Ministère to pay \$30 million annually into another designated fund to finance support and assistance services for seniors with restricted mobility living at home or at residential centres.

The Corporation is unable to assess the total amount of these commitments.

**LOTO-QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**14. COMMITMENTS (cont'd)****Contributions to the Québec Government (cont'd)***Ministère de la Sécurité publique*

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay an annual sum of \$3 million into a designated fund to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. The Corporation is unable to assess the total amount of this commitment at this time.

Moreover, the Corporation has also given its commitment to the Ministère to pay approximately \$0.5 million annually, into a designated fund over a period of five years ending September 30, 2007 to finance additional resources to help reduce the time required to certify the Corporation's gaming equipment.

**15. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equivalent to their accounting value due to their matching expiry date.

**16. CONSOLIDATED CASH FLOWS**

|                                                         | <u>2005</u>     | <u>2004</u>      |
|---------------------------------------------------------|-----------------|------------------|
| Cash and Cash Equivalents                               |                 |                  |
| Cash on hand – Casinos                                  | 47 139          | 52 586           |
| Cash on hand                                            | <u>26 671</u>   | <u>14 001</u>    |
|                                                         | <u>73 810</u>   | <u>66 587</u>    |
| Changes to Assets and Liabilities Related to Operations |                 |                  |
| Accounts receivable                                     | 26 482          | 4 589            |
| Inventory                                               | (2 488)         | 1 499            |
| Prepaid expenses                                        | 4 806           | (3 135)          |
| Prizes payable                                          | (15 953)        | 15 496           |
| Accounts payable and accrued liabilities                | 7 132           | 16 846           |
| Provisions related to prizes                            | 1 036           | (8 767)          |
| Deferred income                                         | <u>598</u>      | <u>(1 712)</u>   |
|                                                         | <u>21 613</u>   | <u>24 816</u>    |
| Acquisition of Fixed Assets                             | (43 018)        | (148 852)        |
| Less: prepaid expenses transferred to<br>fixed assets   | <u>314</u>      | <u>10 202</u>    |
|                                                         | <u>(42 704)</u> | <u>(138 650)</u> |
| Supplementary Information                               |                 |                  |
| Interest paid                                           | <u>13 604</u>   | <u>8 964</u>     |

**LOTO-QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**17. PENSION PLANS**

Employees of the parent corporation, the Société des loteries vidéo du Québec Inc., the 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), and the Régime de retraite du personnel d'encadrement (RRPE). These are benefit-based pension plans and contain guarantees upon retirement or death. Contributions charged to consolidated earnings for the fiscal year for these plans total \$2.4 million (2004: \$2.1 million). The employer's obligations toward these government plans are limited to its contributions as an employer.

The employees of the Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Nter Technologies LP participate in a group Registered Retirement Savings Plan. These defined contribution plans are voluntary and provide employees with immediate payment of the employer's contribution, which is equal to the employee's contribution within the limits prescribed by the plans. Contributions charged to consolidated earnings for the fiscal year under these plans total \$9.2 million (2004: \$8.8 million).

**18. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions already outlined and accounted for, Loto-Québec is related to all Québec Government departments and special funds, as well as to all agencies and enterprises controlled directly or indirectly by the Government, or subject either to joint control or significant mutual influence on the part of the Government. The Corporation has not concluded any business transactions with these related parties other than within the normal course of its activities and on regular business terms. These transactions are not disclosed separately in the financial statements.

**19. COMPARATIVE FIGURES**

Certain figures posted for the year 2004 have been reclassified in order to conform to the presentation adopted in 2005.

**LOTO-QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**20. SEGMENTED INFORMATION**

| Activity Sectors                         | 2005             |                                   |                    |               |                 |                                  | Consolidated<br>Figures |
|------------------------------------------|------------------|-----------------------------------|--------------------|---------------|-----------------|----------------------------------|-------------------------|
|                                          | Lotteries        | Casinos<br>Restaurants<br>Lodging | Video<br>Lotteries | Bingo         | Multi-<br>media | Inter-<br>Company<br>Elimination |                         |
| Revenues                                 |                  |                                   |                    |               |                 |                                  |                         |
| Games                                    | 1 857 225        | 751 913                           | 1 236 884          | 36 597        | 1 070           | (104)                            | 3 883 585               |
| Restaurants                              |                  | 82 766                            |                    |               |                 | (42 294)                         | 40 472                  |
| Lodging                                  |                  | 13 407                            |                    |               |                 |                                  | 13 407                  |
|                                          | <u>1 857 225</u> | <u>848 086</u>                    | <u>1 236 884</u>   | <u>36 597</u> | <u>1 070</u>    | <u>(42 398)</u>                  | <u>3 937 464</u>        |
| Cost of Sales                            |                  |                                   |                    |               |                 |                                  |                         |
| Games                                    | 1 123 732        | 19 137                            | 273 165            | 19 432        |                 | (104)                            | 1 435 362               |
| Restaurants                              |                  | 26 227                            |                    |               |                 |                                  | 26 227                  |
|                                          | <u>1 123 732</u> | <u>45 364</u>                     | <u>273 165</u>     | <u>19 432</u> |                 | <u>(104)</u>                     | <u>1 461 589</u>        |
| Gross Profit                             | <u>733 493</u>   | <u>802 722</u>                    | <u>963 719</u>     | <u>17 165</u> | <u>1 070</u>    | <u>(42 294)</u>                  | <u>2 475 875</u>        |
| Operating Expenses                       |                  |                                   |                    |               |                 |                                  |                         |
| Operating expenditures                   | 146 298          | 474 052                           | 69 368             | 5 512         | 6 108           | (42 294)                         | 659 044                 |
| Depreciation of fixed assets             | 11 993           | 42 562                            | 30 938             | 517           | 67              |                                  | 86 077                  |
| Amortization of deferred charges         |                  | 1 028                             |                    |               |                 |                                  | 1 028                   |
| Interest – Net                           | <u>3 125</u>     | <u>2 342</u>                      | <u>4 283</u>       | <u>(7)</u>    | <u>(10)</u>     |                                  | <u>9 733</u>            |
|                                          | <u>161 416</u>   | <u>519 984</u>                    | <u>104 589</u>     | <u>6 022</u>  | <u>6 165</u>    | <u>(42 294)</u>                  | <u>755 882</u>          |
| Income (Loss) Before the Following Items | <u>572 077</u>   | <u>282 738</u>                    | <u>859 130</u>     | <u>11 143</u> | <u>(5 095)</u>  |                                  | <u>1 719 993</u>        |
| Special payments                         | 15 577           | 5 416                             |                    | 8 086         |                 |                                  | 29 079                  |
| Goods and Services Tax                   | 16 609           | 9 930                             | 23 275             | 420           |                 |                                  | 50 234                  |
| Québec Sales Tax                         | <u>19 001</u>    | <u>11 383</u>                     | <u>26 682</u>      | <u>481</u>    |                 |                                  | <u>57 547</u>           |
|                                          | <u>51 187</u>    | <u>26 729</u>                     | <u>49 957</u>      | <u>8 987</u>  |                 |                                  | <u>136 860</u>          |
| Net Income (Net Loss)                    | <u>520 890</u>   | <u>256 009</u>                    | <u>809 173</u>     | <u>2 156</u>  | <u>(5 095)</u>  |                                  | <u>1 583 133</u>        |

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

**LOTO-QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**20. SEGMENTED INFORMATION (cont'd)**

| Activity Sectors                         | 2004             |                                   |                    |               |                 |                                  | Consolidated<br>Figures |
|------------------------------------------|------------------|-----------------------------------|--------------------|---------------|-----------------|----------------------------------|-------------------------|
|                                          | Lotteries        | Casinos<br>Restaurants<br>Lodging | Video<br>Lotteries | Bingo         | Multi-<br>media | Inter-<br>Company<br>Elimination |                         |
| Revenues                                 |                  |                                   |                    |               |                 |                                  |                         |
| Games                                    | 1 812 785        | 728 906                           | 1 128 847          | 36 929        | 642             | (208)                            | 3 707 901               |
| Restaurants                              |                  | 79 617                            |                    |               |                 | (39 222)                         | 40 395                  |
| Lodging                                  |                  | 12 447                            |                    |               |                 |                                  | 12 447                  |
|                                          | <u>1 812 785</u> | <u>820 970</u>                    | <u>1 128 847</u>   | <u>36 929</u> | <u>642</u>      | <u>(39 430)</u>                  | <u>3 760 743</u>        |
| Cost of Sales                            |                  |                                   |                    |               |                 |                                  |                         |
| Games                                    | 1 122 357        | 19 577                            | 277 974            | 19 556        |                 | (208)                            | 1 439 256               |
| Restaurants                              |                  | 24 207                            |                    |               |                 |                                  | 24 207                  |
|                                          | <u>1 122 357</u> | <u>43 784</u>                     | <u>277 974</u>     | <u>19 556</u> | <u></u>         | <u>(208)</u>                     | <u>1 463 463</u>        |
| Gross Profit                             | <u>690 428</u>   | <u>777 186</u>                    | <u>850 873</u>     | <u>17 373</u> | <u>642</u>      | <u>(39 222)</u>                  | <u>2 297 280</u>        |
| Operating Expenses                       |                  |                                   |                    |               |                 |                                  |                         |
| Operating expenditures                   | 136 028          | 445 289                           | 49 605             | 5 580         | 5 905           | (39 222)                         | 603 185                 |
| Depreciation of fixed assets             | 11 326           | 44 162                            | 24 059             | 497           | 106             |                                  | 80 150                  |
| Amortization of deferred charges         |                  | 2 050                             |                    |               |                 |                                  | 2 050                   |
| Interest – net                           | <u>3 977</u>     | <u>3 000</u>                      | <u>5 219</u>       | <u>(10)</u>   | <u>(9)</u>      |                                  | <u>12 177</u>           |
|                                          | <u>151 331</u>   | <u>494 501</u>                    | <u>78 883</u>      | <u>6 067</u>  | <u>6 002</u>    | <u>(39 222)</u>                  | <u>697 562</u>          |
| Income (Loss) Before the Following Items | <u>539 097</u>   | <u>282 685</u>                    | <u>771 990</u>     | <u>11 306</u> | <u>(5 360)</u>  |                                  | <u>1 599 718</u>        |
| Special payments                         | 15 089           | 4 869                             |                    | 8 207         |                 |                                  | 28 165                  |
| Goods and Services Tax                   | 17 232           | 9 465                             | 22 385             | 471           |                 |                                  | 49 553                  |
| Québec Sales Tax                         | <u>19 696</u>    | <u>10 850</u>                     | <u>25 664</u>      | <u>540</u>    |                 |                                  | <u>56 750</u>           |
|                                          | <u>52 017</u>    | <u>25 184</u>                     | <u>48 049</u>      | <u>9 218</u>  |                 |                                  | <u>134 468</u>          |
| Net Income (Net Loss)                    | <u>487 080</u>   | <u>257 501</u>                    | <u>723 941</u>     | <u>2 088</u>  | <u>(5 360)</u>  |                                  | <u>1 465 250</u>        |

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.



**LOTO-QUÉBEC****MANAGEMENT REPORT**

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The Board of Directors is responsible for the consolidated financial statements drawn up for the shareholder. It delegates responsibility for preparing them to senior management, while the Audit Committee reviews them.

Management has a system of internal controls to ensure that the financial statements are reliable, and Internal Audit monitors the system to ensure it works properly.

The consolidated financial statements are prepared according to Canadian generally accepted accounting principles, which in certain cases, require judgements on the part of management. The financial information contained within the rest of the Annual Report corresponds to the information provided in the financial statements.

By law, the Auditor General of Québec audits the books and accounts of Loto-Québec. The Audit Committee and the Auditor General meet with management to discuss questions pertaining to the audit and to the consolidated financial statements. Audit Committee members have no link to Loto-Québec other than as directors.

Upon the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements of Loto-Québec for the fiscal year ended March 31, 2005.

Alain Cousineau  
Chairman, President and  
Chief Executive Officer

Gérald Houle, FCMA  
Corporate Vice-President,  
Finance and Administration

Montréal, May 26, 2005

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**AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2005 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-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. These standards require that I plan and perform an audit to obtain reasonable assurance as to 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, in all material aspects, the financial position of Loto-Québec as at March 31, 2005, and the results of its operations and cash flows for the year 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.

Renaud Lachance, CA  
Auditor General of Québec

Québec City, May 26, 2005

**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**  
(R.S.Q., c. M-44)

**INCOME AND CHANGES IN FUND BALANCES**  
for the year ended March 31, 2005

|                                                         | General<br>Fund   | Commercial<br>Activities<br>Fund |
|---------------------------------------------------------|-------------------|----------------------------------|
| <b>REVENUE</b>                                          |                   |                                  |
| Gouvernement du Québec subsidies                        |                   |                                  |
| Operations                                              | \$7 615 000       |                                  |
| Specific projects                                       | 11 254            |                                  |
| Federal subsidies for specific projects (Note 4)        | 474 345           |                                  |
| Donations of works of art                               | 1 543 394         |                                  |
| Donations – Fundraising campaign (Note 5)               |                   |                                  |
| Sponsorship (Note 6)                                    | 372 989           |                                  |
| Investment income (Note 7)                              | 67 700            |                                  |
| Sales                                                   |                   | \$556 142                        |
| Space rental                                            |                   | 190 992                          |
| Exhibitions on loan                                     | 92 854            |                                  |
| Royalties – food services                               |                   | 57 067                           |
| Admission fees                                          | 232 630           |                                  |
| Other revenue                                           | 152 758           | 4 242                            |
|                                                         | <u>10 562 924</u> | <u>808 443</u>                   |
| <b>EXPENDITURE</b>                                      |                   |                                  |
| Salaries and other remuneration                         | 4 777 001         | 183 746                          |
| Professional, administrative and other services         | 1 813 405         | 187 659                          |
| Transportation and communications                       | 758 451           | 11 747                           |
| Materials and supplies                                  | 570 965           | 312 106                          |
| Rentals                                                 | 890 707           | 21 678                           |
| Maintenance and repairs                                 | 186 462           | 1 620                            |
| Interest charges and cost of borrowing                  | 11 413            |                                  |
| Acquisition of works of art and archives (Note 8)       |                   |                                  |
| Donations – works of art                                | 1 543 394         |                                  |
| Purchases – works of art                                | 284 064           |                                  |
| Amortization – fixed assets                             |                   |                                  |
| Fundraising expenses (Note 5)                           |                   |                                  |
|                                                         | <u>10 835 862</u> | <u>718 556</u>                   |
| <b>EXCESS (DEFICIENCY) REVENUE<br/>OVER EXPENDITURE</b> | (272 938)         | 89 887                           |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>                 | 16 009            | 275 000                          |
| Interfund contributions (Note 10)                       | 280 099           | (89 887)                         |
| Contribution received as an endowment (Note 9)          | 250 000           |                                  |
| <b>FUND BALANCES, END OF YEAR</b>                       | <u>\$273 170</u>  | <u>\$275 000</u>                 |

The notes are an integral part of the financial statements.

| Fixed Assets Fund | Fundraising<br>Campaign<br>Fund | Endowment<br>Fund for the<br>Acquisition<br>of Works<br>of Art | Total<br>2005 | Total<br>2004 |
|-------------------|---------------------------------|----------------------------------------------------------------|---------------|---------------|
| \$675 703         | \$33 338                        |                                                                | \$8 324 041   | \$7 979 515   |
|                   |                                 |                                                                | 11 254        | 40 430        |
|                   |                                 |                                                                | 474 345       | 508 392       |
|                   |                                 |                                                                | 1 543 394     | 2 226 503     |
|                   | 190 212                         |                                                                | 190 212       | 317 384       |
|                   |                                 |                                                                | 372 989       | 389 390       |
|                   |                                 |                                                                | 67 700        | 51 482        |
|                   |                                 |                                                                | 556 142       | 553 337       |
|                   |                                 |                                                                | 190 992       | 154 947       |
|                   |                                 |                                                                | 92 854        | 113 351       |
|                   |                                 |                                                                | 57 067        | 55 355        |
|                   |                                 |                                                                | 232 630       | 193 070       |
|                   |                                 |                                                                | 157 000       | 166 131       |
| 675 703           | 223 550                         |                                                                | 12 270 620    | 12 749 287    |
|                   |                                 |                                                                | 4 960 747     | 4 672 342     |
|                   |                                 |                                                                | 2 001 064     | 1 949 347     |
|                   |                                 |                                                                | 770 198       | 775 983       |
|                   |                                 |                                                                | 883 071       | 911 539       |
|                   |                                 |                                                                | 912 385       | 885 733       |
|                   |                                 |                                                                | 188 082       | 199 334       |
| 522 286           | 33 338                          |                                                                | 567 037       | 601 553       |
|                   |                                 |                                                                | 1 543 394     | 2 226 503     |
|                   |                                 |                                                                | 284 064       | 276 030       |
| 153 417           |                                 |                                                                | 153 417       | 202 604       |
|                   |                                 |                                                                |               | 38 766        |
| 675 703           | 33 338                          |                                                                | 12 263 459    | 12 739 734    |
|                   | 190 212                         |                                                                | 7 161         | 9 553         |
| (446 623)         |                                 | \$1 412 846                                                    | 1 257 232     | 1 247 679     |
|                   | (190 212)                       |                                                                | 250 000       |               |
| \$(446 623)       |                                 | \$1 412 846                                                    | \$1 514 393   | \$1 257 232   |

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

BALANCE SHEET  
as at March 31, 2005

|                                                             | General<br>Fund    | Commercial<br>Activities<br>Fund |
|-------------------------------------------------------------|--------------------|----------------------------------|
| <b>ASSETS</b>                                               |                    |                                  |
| <b>Current assets</b>                                       |                    |                                  |
| Cash on hand                                                | \$1 440 362        |                                  |
| Short-term investments (Note 11)                            | 49 552             |                                  |
| Accounts receivable                                         | 239 330            | \$25 386                         |
| Accrued interest                                            | 16 052             |                                  |
| Interfund receivables, interest-free and no repayment terms | 619 662            | 175 038                          |
| Gouvernement du Québec subsidies receivable                 | 50 000             |                                  |
| Other subsidies receivable                                  | 28 892             |                                  |
| Inventory                                                   |                    | 101 276                          |
| Prepaid expenses                                            | 12 385             |                                  |
|                                                             | <u>2 456 235</u>   | <u>301 700</u>                   |
| <b>Gouvernement du Québec subsidies receivable</b>          |                    |                                  |
| <b>Portfolio investments</b> (Note 11)                      | 726 545            |                                  |
| <b>Fixed assets</b> (Note 12)                               |                    |                                  |
|                                                             | <u>\$3 182 780</u> | <u>\$301 700</u>                 |
| <b>LIABILITIES</b>                                          |                    |                                  |
| <b>Current liabilities</b>                                  |                    |                                  |
| Bank advances and credit line (Notes 13 and 14)             |                    |                                  |
| Accounts payable and accruals                               | \$658 566          |                                  |
| Provision for vacation time                                 | 394 765            |                                  |
| Interfund receivables, interest-free and no repayment terms |                    |                                  |
| Interest payable                                            |                    |                                  |
| Deferred revenue                                            | 35 218             | \$26 700                         |
| Deferred donations (Note 5)                                 |                    |                                  |
| Deferred investment income (Note 11)                        | 664 466            |                                  |
| Deferred Gouvernement du Québec subsidies                   |                    |                                  |
| Specific projects                                           | 409 304            |                                  |
| Current portion of long-term debt (Note 15)                 | 2 162 319          | 26 700                           |
|                                                             | <u>747 291</u>     |                                  |
| <b>Future fringe benefits</b> (Note 17)                     |                    |                                  |
| <b>Long-term debt</b> (Note 15)                             |                    |                                  |
| <b>Deferred Gouvernement du Québec subsidies</b> (Note 16)  |                    |                                  |
|                                                             | <u>2 909 610</u>   | <u>26 700</u>                    |
| <b>FUND BALANCES</b>                                        |                    |                                  |
| External appropriations                                     | 250 000            | 275 000                          |
| Non-appropriated funds                                      | 23 170             |                                  |
|                                                             | <u>273 170</u>     | <u>275 000</u>                   |
|                                                             | <u>\$3 182 780</u> | <u>\$301 700</u>                 |

**CONTINGENCIES** (Note 19)

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,  
Marc DeSerres  
Rosaire Archambault

| Fixed Assets Fund  | Fundraising<br>Campaign<br>Fund | Endowment<br>Fund for the<br>Acquisition of<br>Works of Art | Total<br>2005       | Total<br>2004       |
|--------------------|---------------------------------|-------------------------------------------------------------|---------------------|---------------------|
|                    |                                 | \$77 546                                                    | \$1 517 908         | \$541 993           |
|                    |                                 | 122 188                                                     | 171 740             | 128 623             |
|                    | \$187 500                       |                                                             | 452 216             | 754 587             |
|                    |                                 |                                                             | 16 052              | 17 319              |
| \$618 947          | 78 070                          |                                                             | 747 017             | 892 113             |
|                    |                                 |                                                             | 28 892              |                     |
|                    |                                 |                                                             | 101 276             | 158 033             |
|                    |                                 |                                                             | 12 385              | 32 906              |
| 618 947            | 265 570                         | 199 734                                                     | 3 047 486           | 2 525 574           |
| 5 201 500          | 470 295                         |                                                             | 5 671 795           | 6 105 649           |
|                    |                                 | 1 816 236                                                   | 2 542 781           | 2 581 458           |
| 414 154            |                                 |                                                             | 414 154             | 465 810             |
| <u>\$6 234 601</u> | <u>\$735 865</u>                | <u>\$2 015 970</u>                                          | <u>\$11 676 216</u> | <u>\$11 678 491</u> |
| \$578 700          |                                 |                                                             | \$578 700           | \$536 700           |
|                    |                                 |                                                             | 658 566             | 530 200             |
|                    |                                 |                                                             | 394 765             | 402 568             |
| 126 610            | \$64 966                        | \$603 124                                                   |                     |                     |
| 245 186            | 10 886                          |                                                             | 256 072             | 273 087             |
|                    | 122 533                         |                                                             | 61 918              | 42 971              |
|                    |                                 |                                                             | 122 533             | 112 245             |
|                    |                                 |                                                             | 664 466             | 592 510             |
|                    |                                 |                                                             | 409 304             | 369 304             |
| 366 669            | 67 185                          |                                                             | 433 854             | 433 854             |
| 1 317 165          | 265 570                         | 603 124                                                     | 3 580 178           | 3 293 439           |
|                    |                                 |                                                             | 747 291             | 706 196             |
| 5 201 500          | 470 295                         |                                                             | 5 671 795           | 6 105 649           |
| 162 559            |                                 |                                                             | 162 559             | 315 975             |
| <u>6 681 224</u>   | <u>735 865</u>                  | <u>603 124</u>                                              | <u>10 161 823</u>   | <u>10 421 259</u>   |
| (446 623)          |                                 | 1 412 846                                                   | 1 491 223           | 1 241 223           |
|                    |                                 |                                                             | 23 170              | 16 009              |
| (446 623)          |                                 | 1 412 846                                                   | 1 514 393           | 1 257 232           |
| <u>\$6 234 601</u> | <u>\$735 865</u>                | <u>\$2 015 970</u>                                          | <u>\$11 676 216</u> | <u>\$11 678 491</u> |

**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL****CASH FLOWS**

for the year ended March 31, 2005

|                                                         | General<br>Fund | Commercial<br>Activities<br>Fund |
|---------------------------------------------------------|-----------------|----------------------------------|
| <b>OPERATING ACTIVITIES</b>                             |                 |                                  |
| Excess (deficiency) revenue over expenditure            | \$(272 938)     | \$89 887                         |
| Items not affecting liquid assets:                      |                 |                                  |
| Depreciation of fixed assets                            | (272 938)       | 89 887                           |
| Changes in assets and liabilities related to operations | 655 371         |                                  |
| Cash flows related to operating activities              | 382 433         | 89 887                           |
| <b>FINANCING ACTIVITIES</b>                             |                 |                                  |
| Repayment of long-term debt                             |                 |                                  |
| Endowments                                              | 250 000         |                                  |
| Bank advances                                           |                 |                                  |
| Cash flows related to financing activities              | 250 000         |                                  |
| <b>INVESTMENT ACTIVITIES</b>                            |                 |                                  |
| Acquisition of fixed assets                             |                 |                                  |
| Acquisition of investments                              | (13 747)        |                                  |
| Proceeds from the disposal of investments               |                 |                                  |
| Cash flows related to investment activities             | (13 747)        |                                  |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>              | 618 686         | 89 887                           |
| Interfund contributions (Note 10)                       | 280 099         | (89 887)                         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | 541 577         |                                  |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>           | \$1 440 362     |                                  |

Cash and cash equivalents include cash on hand.

The notes are an integral part of the financial statements.

| <u>Fixed Assets Fund</u> | <u>Fundraising<br/>Campaign<br/>Fund</u> | <u>Endowment<br/>Fund for the<br/>Acquisition of<br/>Works of Art</u> | <u>Total<br/>2005</u> | <u>Total<br/>2004</u> |
|--------------------------|------------------------------------------|-----------------------------------------------------------------------|-----------------------|-----------------------|
|                          | \$190 212                                |                                                                       | \$7 161               | \$9 553               |
| <u>\$153 417</u>         |                                          |                                                                       | <u>153 417</u>        | <u>202 604</u>        |
| <u>153 417</u>           | <u>190 212</u>                           |                                                                       | <u>160 578</u>        | <u>212 157</u>        |
| <u>273 013</u>           | <u>67 185</u>                            | <u>\$67 823</u>                                                       | <u>1 063 392</u>      | <u>99 513</u>         |
| <u>426 430</u>           | <u>257 397</u>                           | <u>67 823</u>                                                         | <u>1 223 970</u>      | <u>311 670</u>        |
|                          |                                          |                                                                       |                       |                       |
| (366 669)                | (67 185)                                 |                                                                       | (433 854)             | (433 854)             |
| <u>42 000</u>            |                                          |                                                                       | <u>250 000</u>        | <u>210 200</u>        |
| <u>(324 669)</u>         | <u>(67 185)</u>                          |                                                                       | <u>(141 854)</u>      | <u>(223 654)</u>      |
|                          |                                          |                                                                       |                       |                       |
| (101 761)                |                                          |                                                                       | (101 761)             | (207 506)             |
|                          |                                          |                                                                       | (13 747)              | (90 878)              |
|                          |                                          | <u>9 307</u>                                                          | <u>9 307</u>          |                       |
| <u>(101 761)</u>         |                                          | <u>9 307</u>                                                          | <u>(106 201)</u>      | <u>(298 384)</u>      |
|                          | 190 212                                  | 77 130                                                                | 975 915               | (210 368)             |
|                          | (190 212)                                |                                                                       |                       |                       |
|                          |                                          | <u>416</u>                                                            | <u>541 993</u>        | <u>752 361</u>        |
|                          |                                          | <u>\$77 546</u>                                                       | <u>\$1 517 908</u>    | <u>\$541 993</u>      |

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

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#### 1. CONSTITUTION AND PURPOSE

A legal person within the meaning of 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 to ensure a place for international contemporary art through acquisitions, exhibitions and other cultural activities.

The Musée d'art contemporain de Montréal has been recognized as a charitable institution within the meaning of the Québec Taxation Act and the 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, such as the sale of exhibition catalogues, restaurant and gift shop operations, the production and sale of by-products and rental of space. 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 the Musée's activities.

The Fixed Assets Fund shows all assets, liabilities, revenue and expenditure related to fixed assets. All amounts recorded in the Fixed Assets Fund are reserved for the acquisition of fixed assets for the Musée and the 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 the enhancement of the Musée's educational activities, the acquisition of works of art and fixed 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

The financial statements of the Musée were prepared by management according to the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### **Subsidy recording**

Subsidies are recorded using the deferral method. Appropriated subsidies are recognized as revenue in the year in which the related expenditure is incurred. Non-appropriated subsidies are recognized as revenue when they are received or are receivable if the amount receivable can be evaluated with reasonable assurance and its receipt is reasonably assured.

Subsidies receivable for fixed assets and their maintenance are recorded in the year the Musée obtained the financing or carried out the work entitling it to these subsidies.

##### **Endowments**

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, whereas this Fund's investment income is recorded as deferred investment income in the General Fund and recorded as proceeds when it is used for the acquisition of works of art.

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 recorded as proceeds in the fiscal year in which the related charges are incurred.



**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**3. ACCOUNTING POLICIES (cont'd)****Works of art**

Acquisitions of works of art are charged to expenditure of the General Fund.

The value of works of art received as donations during the year is ascertained by experts and, if over \$1 000, must be certified by the Canadian Cultural Property Export Review Board of the Government of Canada. Works of art acquired through donations are recorded in the statement of revenue and expenditure of the General Fund when all attendant conditions have been fulfilled.

**Investments**

Short-term investments are recorded at the lower of cost and market value. Portfolio investments are recorded at acquisition value. Any lasting decrease in market value is reduced by the investments' book value, where applicable and the loss is posted to the fiscal year's results.

**Fixed assets**

Fixed assets are recorded at acquisition cost and depreciated on a straight-line basis over their estimated service lives, namely:

|                             |          |
|-----------------------------|----------|
| 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 |

**Inventory**

Gift shop inventory is valued at the lower of cost and net realizable value. Cost is determined by the first in, first out (FIFO) method.

**Contributions in the form of services**

The Ministère de la Culture et des Communications 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.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**4. FEDERAL SUBSIDIES FOR SPECIFIC PROJECTS**

|                        | 2005             | 2004             |
|------------------------|------------------|------------------|
| Canada Council         | \$323 000        | \$330 000        |
| Heritage Canada        | 141 345          | 62 725           |
| Foreign Affairs Canada | 10 000           | 115 667          |
|                        | <u>\$474 345</u> | <u>\$508 392</u> |

**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**5. 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 foundation'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. Its duties include soliciting members, managing memberships and mailing lists, planning volunteer work and promoting fundraising activities.

To help the foundation 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, photocopies, computers and printer, office supplies and postage expenses). The Musée also makes space available to the foundation for the special events it organizes.

In return, the foundation provides the Musée with various services, such as running the cloakroom, maintaining the computerized mailing list for invitations to openings, the Musée's newsletter and its calendar of events, and providing the necessary manpower for mailings. During the year, the Musée d'art contemporain de Montréal concluded transactions in the normal course of operations with the Fondation.

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 income from donations when used for the campaign's educational activities. At March 31, 2005, the Fondation had pledges totalling \$393 000 (2004: \$843 500). These pledges will be recorded when cashed in future years.

Deferred *Une Affaire d'Art* fundraising campaign donations:

|                                                           | 2005             | 2004             |
|-----------------------------------------------------------|------------------|------------------|
| Opening balance                                           | \$112 245        | \$147 629        |
| Donations cashed during the year                          | 200 500          | 282 000          |
| Amounts recorded as income from donations during the year | (190 212)        | (317 384)        |
| Closing balance                                           | <u>\$122 533</u> | <u>\$112 245</u> |

At March 31, 2005, the Fondation held \$25 000 (2004: \$25 000) in liquid assets belonging to the Musée. Provision has been made, in the event that the Fondation is dissolved or its activities cease, for the assets remaining after payment of its debts to be remitted to the Musée. The Fondation's net assets totalled \$275 501 at March 31, 2005 (2004: \$285 801). At the end of the fiscal year, the net balance owing by the Fondation to the Musée was \$193 109 (2004: \$350 541).

**6. SPONSORSHIPS**

|                                                                                              | 2005             | 2004             |
|----------------------------------------------------------------------------------------------|------------------|------------------|
| Sponsorships obtained in exchange for advertising,<br>posted when exhibitions were presented | \$189 233        | \$60 997         |
| Sponsorships obtained for the realization<br>of exhibitions                                  | 5 000            | 137 213          |
| Other donations                                                                              | <u>178 756</u>   | <u>191 180</u>   |
|                                                                                              | <u>\$372 989</u> | <u>\$389 390</u> |

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**7. INVESTMENT INCOME**

|                                                                                         | 2005            | 2004            |
|-----------------------------------------------------------------------------------------|-----------------|-----------------|
| Income from unappropriated resources                                                    | \$67 700        | \$51 482        |
| Income from resources held in the Endowment<br>Fund for the Acquisition of Works of Art | 68 415          | 58 198          |
| Income from resources held as endowments in<br>Operating Fund                           | 3 541           |                 |
| Less: Deferred amounts slated for<br>the acquisition of works of art                    | (68 415)        | (58 198)        |
| Less: Deferred amounts slated for presentation<br>of an annual symposium (Note 9)       | (3 541)         |                 |
|                                                                                         | <u>\$67 700</u> | <u>\$51 482</u> |

**8. COLLECTIONS**

The Musée d'art contemporain de Montréal holds 6 986 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 cutoff 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, that is, 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 and the Fonds Marciej Babinski.

During fiscal 2004-2005, the Musée acquired 507 works of art and archives (2004: 129), 33 of which were purchased (2004: 15) for a total of \$284 064 (2004: \$276 030), 474 were from donations (2004: 114) for a total of \$1 543 394 (2004: \$2 226 503).

**9. CONTRIBUTION RECEIVED AS AN ENDOWMENT**

The balance of the General Fund includes \$250 000, which is slated by external assignment for being kept permanently. The investment income related to this amount is used for an annual symposium under external assignment.

**10. INTERFUND CONTRIBUTIONS**

|                                                                             | General Fund     |                  | Commercial Activities Fund |                    | Fixed Assets Fund |                  | Fundraising Campaign Fund |                    |
|-----------------------------------------------------------------------------|------------------|------------------|----------------------------|--------------------|-------------------|------------------|---------------------------|--------------------|
| Objects                                                                     | 2005             | 2004             | 2005                       | 2004               | 2005              | 2004             | 2005                      | 2004               |
| Expenditures financed<br>by the Fundraising<br>Campaign Fund <sup>(a)</sup> | \$190 212        | \$278 618        |                            |                    |                   |                  | \$(190 212)               | \$(278 618)        |
| Positive fund<br>balance <sup>(b)</sup>                                     | 89 887           | 189 424          | \$(89 887)                 | \$(189 424)        |                   |                  |                           |                    |
| Fixed assets financed<br>by the General<br>Fund <sup>(c)</sup>              |                  | (108 574)        |                            |                    |                   | \$108 574        |                           |                    |
|                                                                             | <u>\$280 099</u> | <u>\$359 468</u> | <u>\$(89 887)</u>          | <u>\$(189 424)</u> |                   | <u>\$108 574</u> | <u>\$(190 212)</u>        | <u>\$(278 618)</u> |

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. INTERFUND CONTRIBUTIONS** (cont'd)

- (a) Transfer to the General Fund to cover education expenses related to the fundraising campaign.  
 (b) Transfer to the General Fund of the portion of the Commercial Activities Fund balance in excess of \$275 000 (Note 2).  
 (c) Transfer from the General Fund to the Fixed Assets Fund to finance amortization expenses for unsubsidized equipment.

**11. INVESTMENTS**

|                                                                                                  | 2005             |                  |                                                          |                    |                    |                    | 2004               |                    |
|--------------------------------------------------------------------------------------------------|------------------|------------------|----------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                                  | General Fund     |                  | Endowment Fund for<br>the Acquisition of<br>Works of Art |                    | Total              |                    | Total              |                    |
|                                                                                                  | Cost             | Fair<br>value    | Cost                                                     | Fair<br>value      | Cost               | Fair<br>value      | Cost               | Fair<br>value      |
| Short-term investments                                                                           |                  |                  |                                                          |                    |                    |                    |                    |                    |
| Deposits and T-bills<br>maturing in May<br>2005 and March<br>2006, interest of<br>2.44% to 3.75% | <u>\$49 552</u>  | <u>\$50 219</u>  | <u>\$122 188</u>                                         | <u>\$122 662</u>   | <u>\$171 740</u>   | <u>\$172 881</u>   | <u>\$128 623</u>   | <u>\$129 035</u>   |
| Portfolio investments                                                                            |                  |                  |                                                          |                    |                    |                    |                    |                    |
| Bonds maturing<br>between                                                                        |                  |                  |                                                          |                    |                    |                    |                    |                    |
| 1 and 5 years, interest<br>of 4.3% to 7%                                                         | \$296 490        | \$304 571        | \$239 824                                                | \$268 759          | \$536 314          | \$573 330          | \$560 071          | \$594 202          |
| 6 and 10 years,<br>interest of 4.18%<br>to 10.25%                                                | 430 055          | 448 272          | 469 974                                                  | 471 637            | 900 029            | 919 909            | 996 322            | 1 044 630          |
| 11 years and more,<br>interest of 5.75%<br>to 8%                                                 |                  |                  | <u>173 816</u>                                           | <u>193 355</u>     | <u>173 816</u>     | <u>193 355</u>     | <u>88 343</u>      | <u>102 667</u>     |
|                                                                                                  | <u>726 545</u>   | <u>752 843</u>   | <u>883 614</u>                                           | <u>933 751</u>     | <u>1 610 159</u>   | <u>1 686 594</u>   | <u>1 644 736</u>   | <u>1 741 499</u>   |
| Marketable securities                                                                            |                  |                  | <u>932 622</u>                                           | <u>1 065 065</u>   | <u>932 622</u>     | <u>1 065 065</u>   | <u>936 722</u>     | <u>1 004 419</u>   |
|                                                                                                  | <u>\$726 545</u> | <u>\$752 843</u> | <u>\$1 816 236</u>                                       | <u>\$1 998 816</u> | <u>\$2 542 781</u> | <u>\$2 751 659</u> | <u>\$2 581 458</u> | <u>\$2 745 918</u> |

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**11. INVESTMENTS**

The net investment income accumulated at March 31, 2005, and available for acquisitions under the Fund's regulations, totalled \$660 925 (2004: \$592 510) and are recorded as deferred investment income in the General Fund. Net cumulated investment income at March 31, 2005, to be used for an annual symposium under external assignment, totalled \$3 541 (2004: \$0) and was posted to investment income in the General Fund.

**12. FIXED ASSETS FUND – FIXED ASSETS**

|                             | 2005               |                          | 2004             |
|-----------------------------|--------------------|--------------------------|------------------|
|                             | Cost               | Accumulated depreciation | Net value        |
| Storerooms for works of art | \$633 404          | \$623 643                | \$9 761          |
| Computer system             | 440 968            | 400 734                  | 40 234           |
| Musée furnishings           | 3 688 585          | 3 406 964                | 281 621          |
| Musée equipment             | 285 069            | 234 998                  | 50 071           |
| Audiovisual equipment       | 417 657            | 404 183                  | 13 474           |
| Gift shop equipment         | 47 434             | 47 434                   |                  |
| Restaurant equipment        | 118 213            | 103 566                  | 14 647           |
| Sculpture garden            | 483 281            | 478 935                  | 4 346            |
|                             | <u>\$6 114 611</u> | <u>\$5 700 457</u>       | <u>\$414 154</u> |
|                             |                    |                          | <u>\$465 810</u> |

**13. FIXED ASSETS FUND – BANK ADVANCES**

|                                                                                                                                                                | 2005             | 2004             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Demand loans from a financial institution, authorized by<br>decree for a maximum amount of \$1 052 000 (2004: \$927 700)<br>bearing interest at the prime rate | <u>\$578 700</u> | <u>\$536 700</u> |

**14. 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, 2004 and 2005, no amount was owing.

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 15. LONG-TERM DEBT

|                                                                                                                                                                                                                                                              | 2005               |                    |                           |                  |                    |                    | 2004               |                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|---------------------------|------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                                                                                                                                                                                              | Fixed Assets Fund  |                    | Fundraising Campaign Fund |                  | Total              |                    | Total              |                    |
|                                                                                                                                                                                                                                                              | Book value         | Fair value         | Book value                | Fair value       | Book value         | Fair value         | Book value         | Fair value         |
| Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 9.5%, guaranteed by the Gouvernement du Québec, repayable in nine annual instalments of \$308 832 beginning April 1, 1996 and a final instalment of \$4 941 312 on April 1, 2005* | \$4 941 312        | \$5 175 668        |                           |                  | \$4 941 312        | \$5 175 668        | \$5 250 144        | \$5 861 671        |
| Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.076%, guaranteed by the Gouvernement du Québec, repayable in ten annual instalments of \$83 981 beginning June 1, 2003                                                          | 134 370            | 144 325            | \$537 480                 | \$577 300        | 671 850            | 721 625            | 755 831            | 814 675            |
| 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  | 492 487            | 539 816            |                           |                  | 492 487            | 539 816            | 533 528            | 591 143            |
|                                                                                                                                                                                                                                                              | 5 568 169          | 5 859 809          | 537 480                   | 577 300          | 6 105 649          | 6 437 109          | 6 539 503          | 7 267 489          |
| Less: current portion                                                                                                                                                                                                                                        | 366 669            | 366 669            | 67 185                    | 67 185           | 433 854            | 433 854            | 433 854            | 433 854            |
|                                                                                                                                                                                                                                                              | <u>\$5 201 500</u> | <u>\$5 493 140</u> | <u>\$470 295</u>          | <u>\$510 115</u> | <u>\$5 671 795</u> | <u>\$6 003 255</u> | <u>\$6 105 649</u> | <u>\$6 833 635</u> |

\* An instalment of \$308 832 was paid on April 1, 2005 and the balance of \$4 632 480 was refinanced from the Financing Fund of the Gouvernement du Québec through a borrowing bearing interest at an annual rate of 4.771%, that is repayable in 8 instalments of \$311 252 as of June 3, 2006 and a final instalment of \$2 178 764 on June 3, 2014.

## MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**15. LONG-TERM DEBT** (cont'd)

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 as follows:

|      |           |
|------|-----------|
| 2006 | \$433 854 |
| 2007 | 436 274   |
| 2008 | 436 274   |
| 2009 | 436 274   |
| 2010 | 436 274   |

**16. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES**

The deferred subsidies shown in the Fixed Assets Fund include the non-amortized portion of contributions received and receivable in the form of subsidies.

|                                    | 2005             | 2004             |
|------------------------------------|------------------|------------------|
| Opening balance                    | \$315 975        | \$464 292        |
| Amortization of deferred subsidies | (153 416)        | (148 317)        |
| Closing balance                    | <u>\$162 559</u> | <u>\$315 975</u> |

**17. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Musée participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Musée's contributions charged to the year-end statement amount to \$140 040 (2004: \$131 270). The Musée's liability towards these Government plans is restricted to its contributions as an employer.

**Provision for sick leave**

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Closing balance               | \$706 196        | \$691 070        |
| Charge for the year           | 123 952          | 112 871          |
| Benefits paid during the year | (82 857)         | (97 745)         |
| Closing balance               | <u>\$747 291</u> | <u>\$706 196</u> |

**18. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded 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 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.

**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**19. CONTINGENCY**

Public-sector employees' collective agreements expired on June 30, 2003. On January 9, 2004, the Superior Court handed down a ruling in the wage equity file. On June 15, 2004, the government released the budgetary framework of its remuneration policy, which limits the wage adjustment in all public and parapublic sectors to 12.6% over 6-year period, i.e. from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized employees, management health professionals as well as the wage equity file. The government is currently negotiating with the various associations. Consequently, the monetary impact remains undetermined for the Musée.

**20. FINANCIAL INSTRUMENTS****Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The fair value of the investments quoted corresponds to their stock market value the date of the financial statements. The fair value of fixed-income securities is determined using the evaluation methods used in capital markets, such as discounting to the current interest rate as future cash flows.

The fair value of the long-term debt is determined using the current market value of future cash flows under current financing agreements using interest rates available on the market to the entity for loans involving similar conditions and terms.

**21. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.



**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL****MANAGEMENT'S REPORT**

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The financial statements of the Musée d'art contemporain de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out 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, audit and management advisory committee, whose members are not management. This committee meets with management and the auditor, examines the financial statements and recommends their approval to the board of directors.

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

Marc Mayer  
Director General

Suzanne Filiatrault  
Director General, Administration

Montréal, June 3, 2005

**MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Musée d'art contemporain de Montréal as at March 31, 2005 and the statements of income and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Musée's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 3, 2005

**MUSÉE DE LA CIVILISATION**  
(R.S.Q., c. M-44)

INCOME  
for the year ended March 31, 2005

|                                                               | 2005                       |                    |                                |                                                    |                            | 2004                |
|---------------------------------------------------------------|----------------------------|--------------------|--------------------------------|----------------------------------------------------|----------------------------|---------------------|
|                                                               | Working<br>Capital<br>Fund | Exhibition<br>Fund | Asset<br>Mainten-<br>ance Fund | Preventive<br>Improve-<br>ments-<br>Losses<br>Fund | Self-<br>Insurance<br>Fund | Total               |
|                                                               |                            |                    |                                |                                                    |                            | Total               |
| <b>REVENUE</b>                                                |                            |                    |                                |                                                    |                            |                     |
| Gouvernement du Québec subsidies                              |                            |                    |                                |                                                    |                            |                     |
| Operations                                                    | \$15 945 300               |                    |                                |                                                    |                            | \$15 945 300        |
| Other (Note 5)                                                | 4 570 869                  |                    | \$2 280 546                    |                                                    |                            | 6 851 415           |
| Gain on dispute settlement                                    |                            |                    |                                |                                                    |                            | 4 256 246           |
| Other subsidies for specific projects                         | 368 159                    |                    |                                |                                                    |                            | 368 159             |
| Financial sponsorships (Note 6)                               | 326 419                    |                    |                                |                                                    |                            | 326 419             |
| Fondation du Musée de la civilisation - contribution (Note 7) | 3 000                      |                    |                                |                                                    |                            | 3 000               |
| Admission fees                                                | 843 477                    |                    |                                |                                                    |                            | 843 477             |
| Gift shop                                                     | 548 950                    |                    |                                |                                                    |                            | 548 950             |
| Exhibition loans                                              | 702 235                    |                    |                                |                                                    |                            | 702 235             |
| Franchises and rentals                                        | 491 034                    |                    |                                |                                                    |                            | 491 034             |
| Sales of goods and services                                   | 441 063                    |                    |                                |                                                    |                            | 441 063             |
| Interest on short-term investments                            | 150 568                    |                    |                                |                                                    |                            | 150 568             |
| Other                                                         | 126 205                    |                    |                                |                                                    |                            | 126 205             |
|                                                               | <u>24 517 279</u>          |                    | <u>2 280 546</u>               |                                                    |                            | <u>26 797 825</u>   |
| Sponsorships in exchange for goods and services               | 481 215                    |                    |                                |                                                    |                            | 481 215             |
|                                                               | <u>\$24 998 494</u>        |                    | <u>\$2 280 546</u>             |                                                    |                            | <u>\$27 279 040</u> |
|                                                               |                            |                    |                                |                                                    |                            | <u>\$26 340 299</u> |

## MUSÉE DE LA CIVILISATION

INCOME (cont'd)  
for the year ended March 31, 2005

|                                                                                                | 2005                       |                    |                                |                                                    |                            | 2004         |              |
|------------------------------------------------------------------------------------------------|----------------------------|--------------------|--------------------------------|----------------------------------------------------|----------------------------|--------------|--------------|
|                                                                                                | Working<br>Capital<br>Fund | Exhibition<br>Fund | Asset<br>Mainten-<br>ance Fund | Preventive<br>Improve-<br>ments-<br>Losses<br>Fund | Self-<br>Insurance<br>Fund | Total        | Total        |
| Amounts brought forward                                                                        | \$24 998 494               |                    | \$2 280 546                    |                                                    |                            | \$27 279 040 | \$26 340 299 |
| <b>EXPENDITURE</b>                                                                             |                            |                    |                                |                                                    |                            |              |              |
| Salaries and fringe benefits                                                                   | 11 468 117                 |                    |                                |                                                    |                            | 11 468 117   | 11 968 986   |
| Professional services                                                                          | 3 946 445                  |                    |                                |                                                    |                            | 3 946 445    | 3 358 100    |
| Rent                                                                                           | 269 593                    |                    |                                |                                                    |                            | 269 593      | 621 018      |
| Transportation and communications                                                              | 2 069 073                  |                    |                                |                                                    |                            | 2 069 073    | 2 213 790    |
| Furniture, equipments and energy                                                               | 1 973 649                  |                    |                                |                                                    |                            | 1 973 649    | 1 848 289    |
| Maintenance and repairs                                                                        | 875 806                    |                    | 110 003                        |                                                    |                            | 985 809      | 797 935      |
| Administrative expenses                                                                        | 188 643                    |                    | 180 812                        |                                                    |                            | 369 455      | 605 838      |
| Municipal and school taxes                                                                     | 748 076                    |                    |                                |                                                    |                            | 748 076      | 730 708      |
| Acquisitions for Musée collections                                                             | 54 439                     |                    |                                |                                                    |                            | 54 439       | 13 170       |
|                                                                                                | 21 593 841                 |                    | 290 815                        |                                                    |                            | 21 884 656   | 22 157 834   |
| Interest on long-term debt                                                                     | 761 982                    |                    | 716 883                        |                                                    |                            | 1 478 865    | 1 291 628    |
| Depreciation of fixed assets                                                                   | 1 383 807                  |                    | 1 272 848                      |                                                    |                            | 2 656 655    | 2 680 078    |
|                                                                                                | 2 145 789                  |                    | 1 989 731                      |                                                    |                            | 4 135 520    | 3 971 706    |
| Exchange for goods and services                                                                |                            |                    |                                |                                                    |                            |              |              |
| Professional services                                                                          | 17 313                     |                    |                                |                                                    |                            | 17 313       | 86 265       |
| Transportation and communications                                                              | 419 840                    |                    |                                |                                                    |                            | 419 840      | 133 858      |
| Equipments and supplies                                                                        | 44 062                     |                    |                                |                                                    |                            | 44 062       | 103 999      |
|                                                                                                | 481 215                    |                    |                                |                                                    |                            | 481 215      | 324 122      |
|                                                                                                | 24 220 845                 |                    | 2 280 546                      |                                                    |                            | 26 501 391   | 26 453 662   |
| <b>EXCESS<br/>(INSUFFICIENT)<br/>EXPENDITURE<br/>OVER REVENUE<br/>BEFORE<br/>SPECIAL ITEMS</b> | 777 649                    |                    |                                |                                                    |                            | 777 649      | (113 363)    |
| Extraordinary loss resulting from flooding (Note 8)                                            | (25 000)                   |                    |                                |                                                    |                            | (25 000)     |              |
| <b>EXCESS<br/>(INSUFFICIENT)<br/>EXPENDITURE<br/>OVER REVENUE</b>                              | \$752 649                  |                    |                                |                                                    |                            | \$752 649    | \$(113 363)  |

The notes are an integral part of these financial statements.

## MUSÉE DE LA CIVILISATION

CHANGE IN FUND BALANCES  
for the year ended March 31, 2005

|                                                   | 2005                       |                    |                                |                                                    |                            | 2004               |                    |
|---------------------------------------------------|----------------------------|--------------------|--------------------------------|----------------------------------------------------|----------------------------|--------------------|--------------------|
|                                                   | Working<br>Capital<br>Fund | Exhibition<br>Fund | Asset<br>Mainten-<br>ance Fund | Preventive<br>Improve-<br>ments-<br>Losses<br>Fund | Self-<br>Insurance<br>Fund | Total              | Total              |
| <b>OPENING BALANCE</b>                            |                            |                    |                                |                                                    |                            |                    |                    |
| Balance                                           | \$586 564                  |                    |                                |                                                    | \$25 000                   | \$611 564          | \$724 927          |
| Property posting<br>(Note 4)                      | 2 532 891                  |                    |                                |                                                    |                            | 2 532 891          | 2 532 891          |
| Adjusted balance                                  | 3 119 455                  |                    |                                |                                                    | 25 000                     | 3 144 455          | 3 257 818          |
| Excess (Insufficient)<br>proceeds over<br>charges | 752 649                    |                    |                                |                                                    |                            | 752 649            | (113 363)          |
|                                                   | 3 872 104                  |                    |                                |                                                    | 25 000                     | 3 897 104          | 3 144 455          |
| Interfund transfers<br>(Note 18)                  | (849 796)                  | \$609 796          |                                | \$240 000                                          |                            |                    |                    |
| <b>CLOSING BALANCE</b>                            | <u>\$3 022 308</u>         | <u>\$609 796</u>   |                                | <u>\$240 000</u>                                   | <u>\$25 000</u>            | <u>\$3 897 104</u> | <u>\$3 144 455</u> |

The notes are an integral part of these financial statements.

## MUSÉE DE LA CIVILISATION

BALANCE SHEET  
as at March 31, 2005

|                                                                                            | 2005                       |                    |                                |                                                    |                            |                     | 2004                |
|--------------------------------------------------------------------------------------------|----------------------------|--------------------|--------------------------------|----------------------------------------------------|----------------------------|---------------------|---------------------|
|                                                                                            | Working<br>Capital<br>Fund | Exhibition<br>Fund | Asset<br>Mainten-<br>ance Fund | Preventive<br>Improve-<br>ments-<br>Losses<br>Fund | Self-<br>Insurance<br>Fund | Total               | Total<br>(restated) |
| <b>ASSETS</b>                                                                              |                            |                    |                                |                                                    |                            |                     |                     |
| <b>Current assets</b>                                                                      |                            |                    |                                |                                                    |                            |                     |                     |
| Cash on hand (Note 9)                                                                      | \$3 833 546                |                    |                                |                                                    |                            | \$3 833 546         | \$4 915 023         |
| Accounts receivable<br>Gouvernement du<br>Québec subsidies<br>receivable (Note 10)         | 889 986                    |                    | \$20 302                       |                                                    |                            | 910 288             | 695 209             |
| Gift shop inventory<br>(at cost)                                                           | 2 250 479                  |                    | 1 279 911                      |                                                    |                            | 3 530 390           | 3 585 989           |
| Prepaid expenses                                                                           | 182 489                    |                    |                                |                                                    |                            | 182 489             | 160 733             |
| Interfund payables,<br>interest-free, no<br>repayment terms                                | 395 465                    |                    |                                |                                                    |                            | 395 465             | 392 820             |
|                                                                                            | <u>7 551 965</u>           | <u>\$609 796</u>   | <u>16 544</u>                  | <u>\$240 000</u>                                   | <u>\$25 000</u>            | <u>8 852 178</u>    | <u>9 749 774</u>    |
| <b>Deferred expenses<br/>Gouvernement du<br/>Québec subsidies<br/>receivable (Note 10)</b> | 66 466                     |                    | 39 087                         |                                                    |                            | 105 553             | 124 778             |
| <b>Fixed assets (Note 11)</b>                                                              | <u>12 566 891</u>          |                    | <u>14 934 007</u>              |                                                    |                            | <u>27 500 898</u>   | <u>27 681 079</u>   |
|                                                                                            | <u>35 373 529</u>          |                    | <u>5 518 662</u>               |                                                    |                            | <u>40 892 191</u>   | <u>41 812 479</u>   |
|                                                                                            | <u>\$55 558 851</u>        | <u>\$609 796</u>   | <u>\$21 808 513</u>            | <u>\$240 000</u>                                   | <u>\$25 000</u>            | <u>\$77 350 820</u> | <u>\$79 368 110</u> |
| <b>LIABILITIES</b>                                                                         |                            |                    |                                |                                                    |                            |                     |                     |
| <b>Current liabilities</b>                                                                 |                            |                    |                                |                                                    |                            |                     |                     |
| Bank loans (Note 12)                                                                       | \$899 668                  |                    | \$5 278 021                    |                                                    |                            | \$6 177 689         | \$4 302 562         |
| Accounts payable and<br>accruals                                                           | 1 561 594                  |                    | 85 419                         |                                                    |                            | 1 647 013           | 1 801 889           |
| Accrued interest                                                                           | 337 054                    |                    | 304 381                        |                                                    |                            | 641 435             | 683 890             |
| Provision for vacation<br>time (Note 17)                                                   | 892 124                    |                    |                                |                                                    |                            | 892 124             | 877 939             |
| Deferred contributions<br>(Note 13)                                                        | <u>407 746</u>             |                    |                                |                                                    |                            | <u>407 746</u>      | <u>994 932</u>      |
| Amounts carried<br>forward                                                                 | <u>\$4 098 186</u>         |                    | <u>\$5 667 821</u>             |                                                    |                            | <u>\$9 766 007</u>  | <u>\$8 661 212</u>  |

## MUSÉE DE LA CIVILISATION

BALANCE SHEET (cont'd)  
as at March 31, 2005

|                                                       | 2005                    |                    |                                |                                      |                            | 2004                |                     |
|-------------------------------------------------------|-------------------------|--------------------|--------------------------------|--------------------------------------|----------------------------|---------------------|---------------------|
|                                                       | Working<br>Capital Fund | Exhibition<br>Fund | Asset<br>Mainten-<br>ance Fund | Preventive<br>Improve-<br>ments Fund | Self-<br>Insurance<br>Fund | Total               | Total<br>(restated) |
| <b>LIABILITIES (cont'd)</b>                           |                         |                    |                                |                                      |                            |                     |                     |
| <b>Current liabilities</b><br>(cont'd)                |                         |                    |                                |                                      |                            |                     |                     |
| Amounts brought forward                               | \$4 098 186             |                    | \$5 667 821                    |                                      |                            | \$9 766 007         | \$8 661 212         |
| Deferred revenue                                      | 135 642                 |                    |                                |                                      |                            | 135 642             | 362 640             |
| Instalments on long-term debt (Note 14)               | 1 324 425               |                    | 891 392                        |                                      |                            | 2 215 817           | 2 215 817           |
| Interfund payables, interest-free, no repayment terms | 891 340                 |                    |                                |                                      |                            |                     |                     |
|                                                       | <u>6 449 593</u>        |                    | <u>6 559 213</u>               |                                      |                            | <u>12 117 466</u>   | <u>11 239 669</u>   |
| <b>Provision for sick leave</b><br>(Note 17)          | 1 840 345               |                    |                                |                                      |                            | 1 840 345           | 1 982 489           |
| <b>Deferred contributions</b><br>(Note 13)            | 32 512 916              |                    | 5 518 662                      |                                      |                            | 38 031 578          | 39 321 353          |
| <b>Long-term debt</b><br>(Note 14)                    | <u>11 733 689</u>       |                    | <u>9 730 638</u>               |                                      |                            | <u>21 464 327</u>   | <u>23 680 144</u>   |
|                                                       | <u>52 536 543</u>       |                    | <u>21 808 513</u>              |                                      |                            | <u>73 453 716</u>   | <u>76 223 655</u>   |
| <b>FUND BALANCES</b>                                  |                         |                    |                                |                                      |                            |                     |                     |
| Invested in fixed assets                              | 2 916 727               |                    |                                |                                      |                            | 2 916 727           | 3 063 874           |
| Inhouse allocations                                   |                         | \$609 796          |                                | \$240 000                            | \$25 000                   | 874 796             | 25 000              |
| Not allocated                                         | 105 581                 |                    |                                |                                      |                            | 105 581             | 55 581              |
|                                                       | <u>3 022 308</u>        | <u>609 796</u>     |                                | <u>240 000</u>                       | <u>25 000</u>              | <u>3 897 104</u>    | <u>3 144 455</u>    |
|                                                       | <u>\$55 558 851</u>     | <u>\$609 796</u>   | <u>\$21 808 513</u>            | <u>\$240 000</u>                     | <u>\$25 000</u>            | <u>\$77 350 820</u> | <u>\$79 368 110</u> |

## CONTINGENCIES (Note 19)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Henri Grondin  
Jacques Mercier

**MUSÉE DE LA CIVILISATION****CASH FLOWS**

for the year ended March 31, 2005

|                                                          | <u>2005</u>        | <u>2004</u>        |
|----------------------------------------------------------|--------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                              |                    |                    |
| Excess (Insufficient) revenue over expenditure           | \$752 649          | \$(113 363)        |
| Adjustments for:                                         |                    |                    |
| Amortization of deferred expenses                        | 19 225             | 19 225             |
| Depreciation of fixed assets                             | 2 656 655          | 2 680 078          |
| Amortization of deferred contributions                   | (3 306 186)        | (2 737 815)        |
| Management costs capitalized to the debt                 |                    | 3 859              |
| Interest capitalized to the borrowing                    | 30 947             | 7 533              |
|                                                          | <u>153 290</u>     | <u>(140 483)</u>   |
| Change in non-cash elements of the Working Capital Fund: |                    |                    |
| Change in accounts receivable                            | (215 079)          | (4 430)            |
| Change in Gouvernement du Québec subsidies receivable    | 55 599             | (282 524)          |
| Change in gift shop inventory                            | (21 756)           | (3 080)            |
| Change in prepaid expenses                               | (2 645)            | 214 163            |
| Change in accounts payable and accruals                  | (200 588)          | 45 065             |
| Change in accrued interest                               | (42 455)           | 241 784            |
| Change in provision for vacation time                    | 14 185             | 138 939            |
| Change in deferred contributions                         | (587 186)          | 646 369            |
| Change in deferred revenue                               | (226 998)          | 328 486            |
| Change in provision for sick leave                       | (142 144)          | 196 996            |
|                                                          | <u>(1 369 067)</u> | <u>1 521 768</u>   |
| Cash flows related to operating activities               | <u>(1 215 777)</u> | <u>1 381 285</u>   |
| <b>FINANCING ACTIVITIES</b>                              |                    |                    |
| Bank loans                                               | 1 844 180          | 2 681 725          |
| Gouvernement du Québec subsidies received                | 2 196 592          | 663 045            |
| Long-term debt                                           |                    | 10 097 074         |
| Repayment on long-term debt                              | (2 215 817)        | (682 271)          |
| Cash flows related to financing activities               | <u>1 824 955</u>   | <u>12 759 573</u>  |
| <b>INVESTMENT ACTIVITIES</b>                             |                    |                    |
| Cash flows related to investment activities:             |                    |                    |
| Acquisition of fixed assets                              | (1 690 655)        | (11 676 083)       |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>             | <u>(1 081 477)</u> | <u>2 464 775</u>   |
| <b>CASH AND CASH EQUIVALENTS</b>                         |                    |                    |
| <b>CASH, BEGINNING OF YEAR</b>                           | <u>4 915 023</u>   | <u>2 450 248</u>   |
| <b>CASH AND CASH EQUIVALENTS</b>                         |                    |                    |
| <b>CASH, END OF YEAR</b>                                 | <u>\$3 833 546</u> | <u>\$4 915 023</u> |

The notes are an integral part of these financial statements.



## MUSÉE DE LA CIVILISATION

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

---

#### 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). Its functions are to make known the history and the 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 the participation of Québec 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 within the meaning of 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, proceeds and charges related to the Musée's current operations and commercial activities such as operation of the gift shops and restaurant and exhibition and room rental. The Musée requires the government's authorization to acquire, dispose of, mortgage or lease a building.

At the end of the fiscal year, any excess in proceeds over charges greater than \$50 000 in the Working Capital Fund is transferred into the Exhibition Fund up to the target objective of \$600 000. In excess of this amount, the Musée will have the choice of transferring the surplus or not.

The Working Capital Fund was created on March 31, 2005 to facilitate funding of the Musée's exhibitions in the case of annual fluctuations in proceeds from exhibitions rental thereby stabilizing the financing targeted by 3-year planning.

The amounts from these funds will be used for temporary exhibitions and, exceptionally, for related activities.

The Assets Maintenance Fund presents the assets, liabilities, proceeds and charges related to the different orders-in-council of the Québec government's Assets Maintenance Program.

The Preventive Improvements-Losses Fund is used to implement preventive measures at the Musée to best protect its property from external events outside its control.

The Self-Insurance Fund is designed to cover the \$25 000 franchise stipulated in the Québec government's self-insurance order-in-council.

#### 3. ACCOUNTING POLICIES

The financial statements of the Musée were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Reporting contributions

Contributions include subsidies, sponsorships and contributions obtained in order to produce exhibitions.

Contributions are recorded using the deferral method. Appropriated contributions are recognized as revenue in the year in which the related expenditure is incurred. Non-appropriated contributions are recognized as revenue when they are received or are receivable if the amount receivable can be evaluated with reasonable assurance and its receipt is reasonably assured.

##### Gouvernement du Québec subsidies receivable

Subsidies receivable for fixed assets and their maintenance are recorded during the fiscal year in which the Musée obtained the financing or carried out the work entitling it to these subsidies.

**MUSÉE DE LA CIVILISATION**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**3. ACCOUNTING POLICIES (cont'd)****Cash and cash equivalents**

Cash and cash equivalents comprise cash and short-term investments that are highly liquid and easily convertible into a known amount of cash whose value is unlikely to change significantly.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Short-term investments**

Short-term investments are recorded at the lesser of cost and market value.

**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 is determined by the first in, first out (FIFO) method.

**Deferred expenses**

Issue expenses on the long-term debt are deferred and amortized over the term of the debt on a straight-line basis.

**Fixed assets**

Fixed assets are recorded at cost or, if they are acquired free of charge, according to the municipal assessment on the date of acquisition. They are depreciated on a straight-line basis over their estimated service lives, namely:

|                                                        |          |
|--------------------------------------------------------|----------|
| 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  |

**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 et des Communications. These contributions are reported in the financial statements at the fair value of the services received.

**Services rendered by volunteers**

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 proceeds and charges.

## MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**4. CHANGE IN ACCOUNTING POLICIES**

As of the present fiscal year, the Musée posts the cost of property to the Working Capital Fund balance as being invested in fixed assets. Previously, the cost of property was posted to deferred long-term contributions.

The retroactive application of these changes increase (decrease) the following items in the financial statements:

|                                             | <u>2005</u>   | <u>2004</u>   |
|---------------------------------------------|---------------|---------------|
| <b>Balance sheet – Working Capital Fund</b> |               |               |
| Deferred long-term contributions            | \$(2 532 891) | \$(2 532 891) |
| Fund balance: Invested in fixed assets      | 2 532 891     | 2 532 891     |

**5. GOUVERNEMENT DU QUÉBEC SUBSIDIES – OTHER**

|                                                                              | <u>2005</u>               | <u>2004</u>               |
|------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>Working Capital Fund</b>                                                  |                           |                           |
| Specific projects                                                            | \$847 499                 | \$1 621 589               |
| Centre d'interprétation de Place-Royale                                      | 730 000                   | 700 000                   |
| Property taxes                                                               | 339 000                   | 200 000                   |
| Repayment of interest on the long-term debt                                  | 731 034                   | 519 687                   |
| Amortization of deferred contributions*                                      | <u>1 923 336</u>          | <u>1 739 152</u>          |
|                                                                              | <u>4 570 869</u>          | <u>4 780 428</u>          |
| <b>Assets Maintenance Fund</b>                                               |                           |                           |
| Repayment of interest on the long-term debt                                  | 716 883                   | 760 549                   |
| Repayment of interest on bank borrowings to maintain assets                  | 180 812                   | 104 462                   |
| Amortization of deferred contributions**<br>and maintenance and repair costs | <u>1 382 851</u>          | <u>998 663</u>            |
|                                                                              | <u>2 280 546</u>          | <u>1 863 674</u>          |
|                                                                              | <u><u>\$6 851 415</u></u> | <u><u>\$6 644 102</u></u> |

\* Amortization of deferred contributions at the same rate as fixed assets (authorized by order-in-council) and in keeping with the cost of permanent exhibitions.

\*\* Amortization of deferred contributions at the same rate as fixed assets (authorized by orders-in-council).

**6. FINANCIAL SPONSORSHIPS**

|                                                                                                                                               | <u>2005</u>             | <u>2004</u>             |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| <b>Working Capital Fund</b>                                                                                                                   |                         |                         |
| Commercial sponsorships received in exchange for<br>publicity items, recognized when the related<br>exhibition is shown and specific projects |                         | \$159 755               |
| Specific sponsorships received for showing exhibitions and<br>specific projects                                                               | \$93 424                | 181 427                 |
| Gouvernement du Québec contributions for showing exhibitions                                                                                  | <u>232 995</u>          | <u>220 727</u>          |
|                                                                                                                                               | <u><u>\$326 419</u></u> | <u><u>\$561 909</u></u> |

**MUSÉE DE LA CIVILISATION**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**7. 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, 2005 amounted to \$664 470 (2004: \$569 846). 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.

The Musée nationale 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 \$151 138 at March 31, 2005 (2004: \$124 766).

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.

**8. EXTRAORDINARY LOSS RESULTING FROM AN OPINION**

On December 11, 2004, flooding damaged the basement of the building housing the Musée. The costs incurred as a result of this flooding are covered by an insurance policy and break down as follows:

|                                             |                 |
|---------------------------------------------|-----------------|
| Repair costs                                | \$992 028       |
| Insurance benefit (net \$25 000 deductible) | (967 028)       |
|                                             | <u>\$25 000</u> |

**9. CASH**

Cash bears interest on a daily basis at the prime rate less 1.75%. At March 31, 2005, the rate was 2.50%.

**10. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

Gouvernement du Québec subsidies receivable entered as current assets are as follows:

|                                                                        | <u>2005</u>        | <u>2004</u>        |
|------------------------------------------------------------------------|--------------------|--------------------|
| <b>Working Capital Fund</b>                                            |                    |                    |
| Interest accrued on the long-term debt                                 | \$337 054          | \$377 612          |
| Capital repayments on long-term debt payable in the coming fiscal year | 1 324 425          | 1 324 425          |
| Other subsidies receivable                                             | <u>589 000</u>     | <u>628 870</u>     |
|                                                                        | <u>2 250 479</u>   | <u>2 330 907</u>   |
| <b>Asset Maintenance Fund</b>                                          |                    |                    |
| Interest accrued on long-term debt                                     | 285 832            | 306 278            |
| Capital repayments on long-term debt payable in the coming fiscal year | 891 392            | 891 392            |
| Other subsidies receivable                                             | <u>102 687</u>     | <u>57 412</u>      |
|                                                                        | <u>1 279 911</u>   | <u>1 255 082</u>   |
|                                                                        | <u>\$3 530 390</u> | <u>\$3 585 989</u> |

## MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**10. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE (cont'd)**

Those presented as long-term are as follows:

|                                                                           | <u>2005</u>                | <u>2004</u>                |
|---------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>Working Capital Fund</b>                                               |                            |                            |
| Opening balance of subsidies receivable                                   | \$14 919 017               | \$4 605 726                |
| Amortization of deferred issuing costs                                    | 9 499                      | 9 499                      |
| Subsidies – Trajectoires                                                  | 107 956                    |                            |
| Subsidies – Le Temps des Québécois                                        | 31 713                     | 652 862                    |
| Subsidies – La Réserve muséale de la Capitale nationale                   | 147 556                    | 9 947 074                  |
| Capital subsidies on long-term debt                                       | <u>(1 324 425)</u>         | <u>(296 144)</u>           |
|                                                                           | 13 891 316                 | 14 919 017                 |
| Capital repayments on long-term debt payable                              | <u>(1 324 425)</u>         | <u>(1 324 425)</u>         |
| Balance of subsidies receivable in the long term                          | <u>12 566 891</u>          | <u>13 594 592</u>          |
| <b>Asset Maintenance Fund</b>                                             |                            |                            |
| Opening balance of subsidies receivable                                   | 14 977 879                 | 13 598 883                 |
| Subsidies – Fixed assets and asset maintenance                            | 1 729 186                  | 1 755 396                  |
| Amortization of deferred issuing costs                                    | 9 726                      | 9 726                      |
| Capital subsidies on long-term debt                                       | <u>(891 392)</u>           | <u>(386 126)</u>           |
| Balance of subsidies receivable at year-end                               | 15 825 399                 | 14 977 879                 |
| Capital repayments on long-term debt payable<br>in the coming fiscal year | <u>(891 392)</u>           | <u>(891 392)</u>           |
| Balance of long-term subsidies receivable                                 | <u>14 934 007</u>          | <u>14 086 487</u>          |
|                                                                           | <u><u>\$27 500 898</u></u> | <u><u>\$27 681 079</u></u> |

## MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**11. FIXED ASSETS**

|                                                            | 2005                 |                         |                          |                         |                      |                         | 2004         |              |
|------------------------------------------------------------|----------------------|-------------------------|--------------------------|-------------------------|----------------------|-------------------------|--------------|--------------|
|                                                            | Cost                 |                         | Accumulated depreciation |                         | Net                  |                         | Net          |              |
|                                                            | Working Capital Fund | Assets Maintenance Fund | Working Capital Fund     | Assets Maintenance Fund | Working Capital Fund | Assets Maintenance Fund | Total        | Total        |
| Lands                                                      | \$2 532 891          |                         |                          |                         | \$2 532 891          |                         | \$2 532 891  | \$2 532 891  |
| Buildings                                                  | 49 842 291           | \$1 350 697             | \$17 462 098             | \$182 150               | 32 380 193           | \$1 168 547             | 33 548 740   | 34 730 760   |
| Building additions and developments                        | 6 860 526            | 2 988 940               | 6 549 047                | 1 591 681               | 311 479              | 1 397 259               | 1 708 738    | 1 459 962    |
| Leasehold improvements                                     | 6 000                | 4 185 000               | 2 998                    | 2 802 934               | 3 002                | 1 382 066               | 1 385 068    | 1 773 446    |
| Furnishings and equipment                                  | 1 879 574            | 148 222                 | 1 875 721                | 138 668                 | 3 853                | 9 554                   | 13 407       | 27 202       |
| Handling, storage, transformation and production equipment | 636 728              | 1 984 243               | 518 768                  | 697 943                 | 117 960              | 1 286 300               | 1 404 260    | 1 065 008    |
| Lighting and sound equipment                               | 258 516              | 518 675                 | 243 093                  | 515 080                 | 15 423               | 3 595                   | 19 018       | 20 397       |
| Commercial activities equipment                            | 13 375               | 140 200                 | 13 375                   | 108 675                 |                      | 31 525                  | 31 525       | 18 966       |
| Computer and audiovisual equipment                         | 491 192              | 985 686                 | 482 464                  | 745 870                 | 8 728                | 239 816                 | 248 544      | 183 847      |
|                                                            | \$62 521 093         | \$12 301 663            | \$27 147 564             | \$6 783 001             | \$35 373 529         | \$5 518 662             | \$40 892 191 | \$41 812 479 |

**12. BANK LOANS**

All of the Musée's loans are guaranteed by the Gouvernement du Québec.

All bank borrowings bear interest at the prime rate. The rate at March 31, 2005 was 4.25%.

**Working Capital Fund**

The Gouvernement du Québec authorized the Musée to contract short-term borrowings of \$3 000 000 for its operations and short-term borrowings not to exceed \$3 167 600 (2004: \$760 000) for the design and realization of a two permanent Musée exhibitions. At March 31, 2005, the short-term borrowings balance was \$899 668 (2004: \$760 000).

**Asset Maintenance Fund**

The Gouvernement du Québec also authorized the Musée to contract short-term borrowings for fixed assets and their maintenance for a maximum of \$6 770 252 (2004: \$4 402 600). At March 31, 2005, the short-term borrowings balance was \$5 278 021 (2004: \$3 258 485).

## MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**13. DEFERRED CONTRIBUTIONS**

The deferred contributions presented in the short-term relate to the amounts received during the fiscal year and destined to cover the charges related to certain exhibitions beginning or running into subsequent fiscal years. Changes in the short-term balance are as follows:

|                                             | <u>2005</u>             | <u>2004</u>             |
|---------------------------------------------|-------------------------|-------------------------|
| <b>Working Capital Fund</b>                 |                         |                         |
| Opening balance                             | \$994 932               | \$348 563               |
| New contributions for the fiscal year       | (1 021 055)             | (1 350 764)             |
| Amount received for subsequent fiscal years | <u>433 869</u>          | <u>1 997 133</u>        |
| Closing balance                             | <u><u>\$407 746</u></u> | <u><u>\$994 932</u></u> |
| With the following breakdown:               |                         |                         |
| Gouvernement du Québec                      | \$285 700               | \$952 722               |
| Other deferred contributions                | <u>122 046</u>          | <u>42 210</u>           |
|                                             | <u><u>\$407 746</u></u> | <u><u>\$994 932</u></u> |

The deferred contributions presented as long-term include Gouvernement du Québec commitments related to fixed assets and their maintenance and to the permanent exhibitions Le Temps des Québécois and Trajectoires. Changes in the long-term balance are as follows:

|                                                                         | <u>2005</u>                | <u>2004</u><br>(Restated)  |
|-------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>Working Capital Fund</b>                                             |                            |                            |
| Opening balance                                                         | \$34 149 027               | \$25 288 244               |
| Subsidy – Le Temps des Québécois                                        | 31 713                     | 652 861                    |
| Subsidies – Trajectoires                                                | 107 956                    |                            |
| Subsidy – Réserve muséale de la Capitale nationale                      | 147 556                    | 9 947 074                  |
| Amortization of deferred contributions                                  | <u>(1 923 336)</u>         | <u>(1 739 152)</u>         |
| Closing balance                                                         | <u><u>32 512 916</u></u>   | <u><u>34 149 027</u></u>   |
| <b>Asset Maintenance Fund</b>                                           |                            |                            |
| Opening balance                                                         | 5 172 326                  | 4 415 593                  |
| Subsidies – Asset maintenance                                           | 1 729 186                  | 1 755 396                  |
| Amortization of deferred contributions and maintenance and repair costs | <u>(1 382 850)</u>         | <u>(998 663)</u>           |
| Closing balance                                                         | <u><u>5 518 662</u></u>    | <u><u>5 172 326</u></u>    |
|                                                                         | <u><u>\$38 031 578</u></u> | <u><u>\$39 321 353</u></u> |

## MUSÉE DE LA CIVILISATION

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**14. LONG-TERM DEBT**

|                                                                                                                       | <u>2005</u>         | <u>2004</u>         |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec. |                     |                     |
| <b>Working Capital Fund</b>                                                                                           |                     |                     |
| 5.48% repayable in annual instalments of \$432 898 on the principal of the borrowing, maturing October 24, 2008       | \$1 731 593         | \$2 164 491         |
| 4.153% repayable in annual instalments of \$86 971 on the principal of the borrowing, maturing October 1, 2008        | 347 884             | 434 855             |
| 5.39% repayable in annual instalments of \$210 070 on the principal of the borrowing, maturing April 2, 2007          | 630 211             | 840 281             |
| 7.16% repayable in annual instalments of \$86 073 on the principal of the borrowing, maturing October 1, 2007         | 688 587             | 774 660             |
| 5.149% repayable in annual instalments of \$508 413 on the principal of the borrowings, maturing October 1, 2013      | <u>9 659 839</u>    | <u>10 168 252</u>   |
|                                                                                                                       | 13 058 114          | 14 382 539          |
| Instalments due within one year                                                                                       | <u>(1 324 425)</u>  | <u>(1 324 425)</u>  |
|                                                                                                                       | <u>11 733 689</u>   | <u>13 058 114</u>   |
| <b>Asset Maintenance Fund</b>                                                                                         |                     |                     |
| 5.95% repayable in annual instalments of \$420 737 on the principal of the borrowing, maturing December 1, 2010       | 5 048 846           | 5 469 583           |
| 4.311% repayable in annual instalments of \$84 528 on the principal of the borrowing, maturing October 1, 2008        | 338 111             | 422 639             |
| 6.85% repayable in annual instalments of \$306 580 on the principal of the borrowing, maturing October 1, 2007        | 4 598 700           | 4 905 280           |
| 7.16% repayable in annual instalments of \$79 547 on the principal of the borrowing, maturing October 1, 2007         | <u>636 373</u>      | <u>715 920</u>      |
|                                                                                                                       | 10 622 030          | 11 513 422          |
| Instalments due within one year                                                                                       | <u>(891 392)</u>    | <u>(891 392)</u>    |
|                                                                                                                       | <u>9 730 638</u>    | <u>10 622 030</u>   |
|                                                                                                                       | <u>\$21 464 327</u> | <u>\$23 680 144</u> |



## MUSÉE DE LA CIVILISATION

### NOTES TO FINANCIAL STATEMENTS (cont'd) March 31, 2005

#### 14. LONG-TERM DEBT (cont'd)

Principal payments on these borrowings are made annually out of subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years, assuming that these amounts will be refinanced at the same conditions on maturing, are as follows:

|      |             |
|------|-------------|
| 2006 | \$2 215 817 |
| 2007 | 2 215 817   |
| 2008 | 2 215 817   |
| 2009 | 2 005 747   |
| 2010 | 1 401 350   |

#### 15. WORKS DONATED FOR MUSÉE COLLECTIONS

The Musée gives receipts for donated works, the value of which is certified by the Canadian Cultural Property Export Review Board. The cumulative value of works donated since 1991 breaks down as follows:

|                 | 2005               | 2004               |
|-----------------|--------------------|--------------------|
| Opening balance | \$3 904 901        | \$3 856 983        |
| Receipt issued  | 62 060             | 47 918             |
| Closing balance | <u>\$3 966 961</u> | <u>\$3 904 901</u> |

#### 16. CASH FLOWS

##### Interest paid

|                                            | 2005               | 2004               |
|--------------------------------------------|--------------------|--------------------|
| Interest paid on Financing Fund borrowings | \$1 489 697        | \$1 019 228        |
| Interest paid on short-term borrowings     | 162 262            | 104 725            |
| Closing balance                            | <u>\$1 651 959</u> | <u>\$1 123 953</u> |

#### 17. FUTURE FRINGE BENEFITS

##### Pension plans

The staff members of the Musée de la Civilisation participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Musée's contributions charged to the year-end statement amount to \$391 461 (2004: \$356 921). The liability of the Musée towards these Government plans is restricted to its contributions as an employer.

**MUSÉE DE LA CIVILISATION**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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

|                               | 2005             |                    | 2004             |                    |
|-------------------------------|------------------|--------------------|------------------|--------------------|
|                               | Vacation time    | Sick leave         | Vacation time    | Sick leave         |
| Opening balance               | \$877 939        | \$1 982 489        | \$739 000        | \$1 785 493        |
| Charges for the year (*)      | 800 623          | 97 839             | 747 727          | 555 037            |
| Benefits paid during the year | (786 438)        | (239 983)          | (608 788)        | (358 041)          |
| Closing balance               | <u>\$892 124</u> | <u>\$1 840 345</u> | <u>\$877 939</u> | <u>\$1 982 489</u> |

(\*) Correction made in 2004-2005 to adjust the provision of sick leave in keeping with the Contrôleur des finances' press release issued March 23, 2005.

**18. INTERFUND TRANSFERS**

An amount of \$849 796 from the Working Capital Fund was transferred to two new funds: \$609 696 to the Working Capital Fund and \$240 000 to the Preventive Improvements-Losses Fund.

**19. CONTINGENCIES****Legal action involving damages and interest**

Legal action involving damages and interest taken against the Musée totals \$201 750. In the Musée's opinion, no significant liability can result from these proceedings.

**Public-sector employee collective agreements**

The collective agreements governing Musée employees expired on June 30, 2003 and December 31, 2003.

On January 9, 2004, the Superior Court ruled on the wage equity file. On June 15, 2004, the government published the budgetary framework of its remuneration policy, which restricted wage adjustments throughout the public and parapublic sectors to 12.6% over a 6-year period—from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized employees as well as the wage equity file.

In principle, the wage adjustments negotiated for public-service employees will be applied to the Musée's wage scales retroactive to the same dates. The Musée is also currently proceeding with its own wage equity work, as required by the Commission de l'équité salariale, which recognized the Musée as an autonomous employer that is separate from the Conseil du trésor.

The government is currently negotiating with its different associations, so that the monetary impact remains undetermined for the Musée.

**20. FAIR VALUE OF FINANCIAL INSTRUMENTS****Gouvernement du Québec subsidies receivable**

At March 31, 2005, the fair value of Gouvernement du Québec subsidies receivable in the amount of \$30 339 601 (2004: \$30 580 786) was \$31 515 409 (2004: \$32 128 748).

**MUSÉE DE LA CIVILISATION**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**20. FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term debt**

At March 31, 2005, the fair value of the long-term debt of \$23 680 144 (2004: \$25 895 961) was \$25 478 838 (2004: \$28 127 813), given the discounting of cash flows at market rates for certificates of a similar nature inert terms of maturity and interest rate.

**Short-term financial instruments**

The book values of short-term financial instruments are representative of their fair value, given that they mature in the near future.

**21. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**MUSÉE DE LA CIVILISATION****MANAGEMENT'S REPORT**

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The financial statements of the Musée de la Civilisation were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out 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 was assisted by the audit committee, whose members are not part of management. This committee meets with management, examines the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited the Musée's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 this audit.

Claire Simard  
Director General

Danielle Poiré  
Director of Curatorship and Administration

Québec, June 17, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Musée de la Civilisation as at March 31, 2005 and the statements of income, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present, in all material respects, the Musée's financial position as at March 31, 2005 and the results of its operations and cash flows 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, given the retroactive application of the change to property recording, disclosed in Note 4, 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, June 17, 2005

**MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**  
(R.S.Q., c. M-44)

**INCOME**  
for the year ended March 31, 2005

|                                                      | 2005                |                            |                   |                | 2004                |
|------------------------------------------------------|---------------------|----------------------------|-------------------|----------------|---------------------|
|                                                      | General Fund        | Commercial Activities Fund | Fixed Assets Fund | Endowment Fund | Total Restated      |
| <b>REVENUE</b>                                       |                     |                            |                   |                |                     |
| Gouvernement du Québec subsidies (Note 5)            | \$10 775 523        |                            | \$3 533 394       |                | \$14 308 917        |
| Government of Canada subsidies (Note 6)              | 266 413             |                            |                   |                | 266 413             |
| Admission and cloakroom fees                         | 817 127             |                            |                   |                | 817 127             |
| Parking                                              |                     | \$185 979                  |                   |                | 185 979             |
| Gift shop and publications                           |                     | 632 598                    |                   |                | 632 598             |
| Royalties – Food services                            |                     | 125 686                    |                   |                | 125 686             |
| Space rental and ancillary services                  | 95 022              | 226 428                    |                   |                | 321 450             |
| Works of art and exhibitions on loan                 | 240 971             |                            |                   |                | 240 971             |
| Educational and cultural activities                  | 212 512             |                            |                   |                | 212 512             |
| Sponsorships and publicity                           | 353 275             |                            |                   |                | 353 275             |
| Contribution – Fondation du Musée du Québec (Note 8) | 265 000             |                            |                   |                | 265 000             |
| Gifts of works of art (Note 9)                       | 3 791 970           |                            |                   |                | 3 791 970           |
| Other contributions and partnerships                 | 987 043             |                            |                   |                | 987 043             |
| Investment income (Note 10)                          | 173 368             | 10 714                     |                   |                | 184 082             |
| Other                                                | 28 720              |                            |                   |                | 28 720              |
|                                                      | <u>18 006 944</u>   | <u>1 181 405</u>           | <u>3 533 394</u>  |                | <u>22 721 743</u>   |
|                                                      |                     |                            |                   |                | <u>20 325 937</u>   |
| <b>EXPENDITURE</b>                                   |                     |                            |                   |                |                     |
| Salaries and fringe benefits                         | 6 372 825           | 269 785                    |                   |                | 6 642 610           |
| Energy, taxes and Insurance                          | 843 118             |                            |                   |                | 843 118             |
| Professional, administrative and other services      | 1 697 244           | 51 534                     |                   |                | 1 748 778           |
| Maintenance, repairs and development                 | 883 068             | 8 015                      | 168 335           |                | 1 059 418           |
| Transportation and communications                    | 1 728 744           | 6 503                      |                   |                | 1 735 247           |
| Materials and supplies                               | 703 183             | 308 341                    |                   |                | 1 011 524           |
| Room rental                                          | 219 642             |                            |                   |                | 219 642             |
|                                                      | <u>\$12 447 824</u> | <u>\$644 178</u>           | <u>\$168 335</u>  |                | <u>\$13 260 337</u> |
| Amounts carried forward                              |                     |                            |                   |                | <u>\$13 618 284</u> |

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

INCOME (cont'd)  
for the year ended March 31, 2005

|                                                                   | 2005              |                                       |                         |                        | 2004               |
|-------------------------------------------------------------------|-------------------|---------------------------------------|-------------------------|------------------------|--------------------|
|                                                                   | General Fund      | Commer-<br>cial<br>Activities<br>Fund | Fixed<br>Assets<br>Fund | Endow-<br>ment<br>Fund | Total              |
| Amounts brought forward                                           | \$12 447 824      | \$644 178                             | \$168 335               |                        | \$13 260 337       |
| Acquisition of works of art<br>(Note 9)                           |                   |                                       |                         |                        |                    |
| Gifts of works of art                                             | 3 791 970         |                                       |                         |                        | 3 791 970          |
| Purchase of works of art                                          | 1 534 341         |                                       |                         |                        | 1 534 341          |
| Rental of equipment and<br>space                                  | 57 441            |                                       |                         |                        | 57 441             |
| Interest on long-term debt                                        |                   |                                       | 1 518 772               |                        | 1 518 772          |
| Amortization of deferred<br>expenses                              |                   |                                       | 14 614                  |                        | 14 614             |
| Depreciation of fixed assets                                      |                   |                                       | 1 839 241               |                        | 1 839 241          |
| Loss on capital disposal                                          |                   |                                       | 1 056                   |                        | 1 056              |
| Bad debts                                                         | 245 402           |                                       |                         |                        | 245 402            |
| Other                                                             | 7 100             |                                       |                         |                        | 7 100              |
|                                                                   | <u>18 084 078</u> | <u>644 178</u>                        | <u>3 542 018</u>        |                        | <u>22 270 274</u>  |
| <b>EXCESS<br/>(INSUFFICIENT)<br/>REVENUE OVER<br/>EXPENDITURE</b> | <u>\$(77 134)</u> | <u>\$537 227</u>                      | <u>\$(8 624)</u>        |                        | <u>\$451 469</u>   |
|                                                                   |                   |                                       |                         |                        | <u>\$(905 999)</u> |

The notes are an integral part of these financial statements.

CHANGES IN FUND BALANCES  
for the year ended March 31, 2005

|                                                      | 2005             |                                       |                         |                     | 2004               |
|------------------------------------------------------|------------------|---------------------------------------|-------------------------|---------------------|--------------------|
|                                                      | General Fund     | Commer-<br>cial<br>Activities<br>Fund | Fixed<br>Assets<br>Fund | Endow-<br>ment Fund | Total              |
| <b>OPENING FUND<br/>BALANCES</b>                     | \$67 163         | \$400 000                             | \$1 435 926             | \$1 043 716         | \$2 946 805        |
| Excess (Insufficient)<br>revenue over<br>Expenditure | (77 134)         | 537 227                               | (8 624)                 |                     | 451 469            |
| Interfund transfers<br>(Note 11)                     | <u>537 227</u>   | <u>(537 227)</u>                      |                         |                     |                    |
| <b>CLOSING FUND<br/>BALANCES</b>                     | <u>\$527 256</u> | <u>\$400 000</u>                      | <u>\$1 427 302</u>      | <u>\$1 043 716</u>  | <u>\$2 946 805</u> |

The notes are an integral part of these financial statements.

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                                     | 2005               |                                       |                         |                        | 2004                |                     |
|---------------------------------------------------------------------|--------------------|---------------------------------------|-------------------------|------------------------|---------------------|---------------------|
|                                                                     | General<br>Fund    | Commer-<br>cial<br>Activities<br>Fund | Fixed<br>Assets<br>Fund | Endow-<br>ment<br>Fund | Total               | Total               |
| <b>ASSETS</b>                                                       |                    |                                       |                         |                        |                     |                     |
| <b>Current assets</b>                                               |                    |                                       |                         |                        |                     |                     |
| Cash on hand, 2.35%                                                 | \$572 457          | \$571 829                             | \$498                   | \$1 480                | \$1 146 264         | \$1 019 276         |
| Accounts receivable and<br>accrued interest (Note 12)               | 392 188            | 1 129                                 |                         | 3                      | 393 320             | 756 357             |
| Interfund receivables,<br>interest-free and no<br>repayment terms   | 620 834            |                                       | 16 167                  |                        |                     |                     |
| Subsidies receivable<br>Gouvernement du<br>Québec (Note 13)         | 378 601            |                                       | 2 524 414               |                        | 2 903 015           | 3 666 114           |
| Government of Canada                                                | 9 000              |                                       |                         |                        | 9 000               | 9 000               |
| Inventory                                                           |                    | 304 872                               |                         |                        | 304 872             | 210 636             |
| Prepaid expenses                                                    | 220 867            |                                       |                         |                        | 220 867             | 218 491             |
|                                                                     | <u>2 193 947</u>   | <u>877 830</u>                        | <u>2 541 079</u>        | <u>1 483</u>           | <u>4 977 338</u>    | <u>5 879 874</u>    |
| <b>Portfolio investments</b><br>(Note 14)                           | 1 907 015          |                                       |                         | 1 201 404              | 3 108 419           | 2 469 768           |
| <b>Deferred expenses</b>                                            |                    |                                       | 149 321                 |                        | 149 321             | 163 935             |
| <b>Gouvernement du Québec<br/>subsidies receivable</b><br>(Note 13) |                    |                                       | 24 115 727              |                        | 24 115 727          | 24 907 917          |
| <b>Fixed assets</b> (Note 15)                                       |                    |                                       | <u>27 922 250</u>       |                        | <u>27 922 250</u>   | <u>28 953 380</u>   |
|                                                                     | <u>\$4 100 962</u> | <u>\$877 830</u>                      | <u>\$54 728 377</u>     | <u>\$1 202 887</u>     | <u>\$60 273 055</u> | <u>\$62 374 874</u> |

**COMMITMENTS** (Note 23)**CONTINGENCIES** (Note 24)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Claude Côté  
Michel Giroux

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET (cont'd)  
as at March 31, 2005

|                                                                   | 2005               |                                       |                         |                        | 2004                |
|-------------------------------------------------------------------|--------------------|---------------------------------------|-------------------------|------------------------|---------------------|
|                                                                   | General<br>Fund    | Commer-<br>cial<br>Activities<br>Fund | Fixed<br>Assets<br>Fund | Endow-<br>ment<br>Fund | Total               |
|                                                                   |                    |                                       |                         |                        | Total               |
| <b>LIABILITIES</b>                                                |                    |                                       |                         |                        |                     |
| <b>Current liabilities</b>                                        |                    |                                       |                         |                        |                     |
| Bank loans (Note 16)                                              | \$175 000          |                                       | \$4 479 900             |                        | \$4 654 900         |
| Accounts payable and<br>accruals (Note 17)                        | 1 220 885          |                                       |                         |                        | 1 220 885           |
| Provision for vacation time<br>(Note 21)                          | 642 461            |                                       |                         |                        | 642 461             |
| Interfund receivables,<br>interest-free and no<br>repayment terms |                    | \$477 830                             |                         | \$159 171              |                     |
| Accrued interest                                                  | 82                 |                                       | 666 759                 |                        | 666 841             |
| Client deposits and deferred<br>income                            | 183 128            |                                       |                         |                        | 183 128             |
| Deferred contributions<br>(Note 18)                               | 176 851            |                                       |                         |                        | 176 851             |
| Instalments on long-term<br>debt (Note 19)                        |                    |                                       | 1 770 940               |                        | 1 770 940           |
|                                                                   | <u>2 398 407</u>   | <u>477 830</u>                        | <u>6 917 599</u>        | <u>159 171</u>         | <u>9 316 006</u>    |
| <b>Provision for sick leave<br/>(Note 21)</b>                     | 829 420            |                                       |                         |                        | 829 420             |
| <b>Deferred investment<br/>income</b>                             | 345 879            |                                       |                         |                        | 345 879             |
| <b>Deferred contributions<br/>(Note 18)</b>                       |                    |                                       | 26 646 510              |                        | 26 646 510          |
| <b>Long-term debt (Note 19)</b>                                   |                    |                                       | 19 736 966              |                        | 19 736 966          |
|                                                                   | <u>3 573 706</u>   | <u>477 830</u>                        | <u>53 301 075</u>       | <u>159 171</u>         | <u>56 874 781</u>   |
|                                                                   |                    |                                       |                         |                        | <u>59 428 069</u>   |
| <b>FUND BALANCES</b>                                              |                    |                                       |                         |                        |                     |
| Fixed asset investments                                           |                    |                                       | 1 427 302               |                        | 1 427 302           |
| External restrictions                                             |                    |                                       |                         | 1 043 716              | 1 043 716           |
| Non-appropriated funds                                            | 527 256            | 400 000                               |                         | 927 256                | 467 163             |
|                                                                   | <u>527 256</u>     | <u>400 000</u>                        | <u>1 427 302</u>        | <u>1 043 716</u>       | <u>3 398 274</u>    |
|                                                                   |                    |                                       |                         |                        | <u>2 946 805</u>    |
|                                                                   | <u>\$4 100 962</u> | <u>\$877 830</u>                      | <u>\$54 728 377</u>     | <u>\$1 202 887</u>     | <u>\$60 273 055</u> |
|                                                                   |                    |                                       |                         |                        | <u>\$62 374 874</u> |



## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

## CASH FLOWS

for the year ended March 31, 2005

|                                                    | 2005         |                            |                   |                | 2004          |
|----------------------------------------------------|--------------|----------------------------|-------------------|----------------|---------------|
|                                                    | General Fund | Commercial Activities Fund | Fixed Assets Fund | Endowment Fund | Total         |
|                                                    |              |                            |                   |                | Total         |
| <b>OPERATING ACTIVITIES</b>                        |              |                            |                   |                |               |
| Excess (Insufficient) revenue over expenditure     | \$(77 134)   | \$537 227                  | \$(8 624)         |                | \$451 469     |
| Items not affecting liquid assets                  |              |                            |                   |                |               |
| Amortization of deferred expenses                  |              |                            | 14 614            |                | 14 614        |
| Depreciation of fixed assets                       |              |                            | 1 839 241         |                | 1 839 241     |
| Amortization of deferred contributions - long term |              |                            | (2 014 622)       |                | (2 014 622)   |
| Loss on capital disposal                           |              |                            | 1 056             |                | 1 056         |
|                                                    | (77 134)     | 537 227                    | (168 335)         |                | 291 758       |
| Change in non-cash items related to operations     |              |                            |                   |                | (1 115 534)   |
| Accounts receivable and accrued interest           | 423 631      | (182)                      |                   | \$8 917        | 432 366       |
| Subsidies receivable                               | 736 077      |                            | 27 022            |                | 763 099       |
| Inventory                                          |              | (94 236)                   |                   |                | (94 236)      |
| Prepaid expenses                                   | (2 376)      |                            |                   |                | (2 376)       |
| Accounts payable and accruals                      | (197 589)    |                            |                   |                | (197 589)     |
| Provision for vacation time                        | 39 359       |                            |                   |                | 39 359        |
| Accrued interest                                   | 82           |                            | (54 264)          |                | (54 182)      |
| Client deposits and deferred income                | 53 613       |                            |                   |                | 53 613        |
| Deferred contributions - short term                | (581 299)    |                            |                   |                | (581 299)     |
| Provision for sick leave                           | (260 827)    |                            |                   |                | (260 827)     |
| Deferred investment income                         | 152 838      |                            |                   |                | 152 838       |
|                                                    | 363 509      | (94 418)                   | (27 242)          | 8 917          | 250 766       |
| Cash flows related to operating activities         |              |                            |                   |                | (322 157)     |
| Amounts carried forward                            | \$286 375    | \$442 809                  | \$(195 577)       | \$8 917        | \$542 524     |
|                                                    |              |                            |                   |                | \$(1 437 691) |

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

CASH FLOWS (cont'd)  
for the year ended March 31, 2005

|                                             | 2005             |                            |                   |                |                    | 2004               |
|---------------------------------------------|------------------|----------------------------|-------------------|----------------|--------------------|--------------------|
|                                             | General Fund     | Commercial Activities Fund | Fixed Assets Fund | Endowment Fund | Total              | Total              |
| Amounts brought forward                     | \$286 375        | \$442 809                  | \$(195 577)       | \$8 917        | \$542 524          | \$(1 437 691)      |
| <b>INVESTMENT ACTIVITIES</b>                |                  |                            |                   |                |                    |                    |
| Acquisition of investments                  | (3 397 490)      |                            |                   | (1 876 172)    | (5 273 662)        | (102 934)          |
| Investment transfer                         | 3 003 719        |                            |                   | 1 631 292      | 4 635 011          | 25 003             |
| Acquisitions of fixed assets                |                  |                            | (810 416)         |                | (810 416)          | (924 515)          |
| Loss on disposal                            |                  |                            | 1 250             |                | 1 250              |                    |
| Cash flows related to investment activities | (393 771)        |                            | (809 166)         | (244 880)      | (1 447 817)        | (1 002 446)        |
| <b>FINANCING ACTIVITIES</b>                 |                  |                            |                   |                |                    |                    |
| Gouvernement du Québec subsidies received   |                  |                            | 1 770 940         |                | 1 770 940          | 1 770 940          |
| Bank loans                                  |                  |                            | 1 032 281         |                | 1 032 281          | 1 451 619          |
| Repayment of long-term debt                 |                  |                            | (1 770 940)       |                | (1 770 940)        | (1 770 940)        |
| Cash flows related to financing activities  |                  |                            | 1 032 281         |                | 1 032 281          | 1 451 619          |
| <b>VARIATION IN CASH FLOW</b>               | (107 396)        | 442 809                    | 27 538            | (235 963)      | 126 988            | (988 518)          |
| <b>CASH, BEGINNING OF YEAR</b>              | 355 001          | 583 618                    | 382               | 80 275         | 1 019 276          | 2 007 794          |
| Interfund cash flow                         | 324 852          | (454 598)                  | (27 422)          | 157 168        |                    |                    |
| <b>CASH, END OF YEAR</b>                    | <u>\$572 457</u> | <u>\$571 829</u>           | <u>\$498</u>      | <u>\$1 480</u> | <u>\$1 146 264</u> | <u>\$1 019 276</u> |

Interest paid over the fiscal year totalled \$1 573 036 (2004: \$1 610 821).

The notes are an integral part of these financial statements.

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

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#### 1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée national des beaux-arts du Québec (2002: Musée du Québec) 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, from ancient art to contemporary art, and by 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 charitable organization within the meaning of the Income Tax Act and, as a result, is eligible for the tax exemption applicable to such organizations.

#### 2. FUND OBJECTIVES

The General 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 in January 1999, 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 Fixed Assets Fund presents the assets, liabilities, products and charges related to fixed assets. That portion of the Fund's balance that is not invested in fixed assets is reserved for the acquisition of fixed 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 the 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 fixed assets and the acquisition of works of art for the Musée collection.

#### 3. ACCOUNTING POLICIES

The financial statements of the Musée national des beaux-arts du Québec were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Posting of contributions

The contributions posted in the General Fund include subsidies, sponsorships and other contributions obtained primarily for exhibition purposes. The contributions posted in the Fixed Assets Fund include Gouvernement du Québec subsidies related to fixed assets and their maintenance.

The Musée uses the deferral method for recording contributions. The contributions made are posted as proceeds for the fiscal year in which the related charges are incurred. Unappropriated contributions are posted as products when they are received or receivable, if the amount receivable can be reasonably estimated and if it is reasonably certain that it will be received.

##### Subsidies receivable

Subsidies receivable related to fixed assets and their maintenance are recorded during the fiscal year in which the Musée obtained the funding or carried out the work entitling it to these subsidies.

##### 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 General Fund and recorded as proceeds from the appropriate fund in the fiscal year in which the related charged are incurred.

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. ACCOUNTING POLICIES (cont'd)****Works of art**

Acquisitions of works of art are charged to expenditure of the General Fund.

The value of the works of art acquired through gifts is determined by an expert and generally approved by the Canadian Cultural Property Export Review Board. Works acquired through gifts are posted to proceeds and charges of the General Fund once all related conditions have been fulfilled.

**Investments**

Portfolio investments are recorded at cost. Any lasting drop in value is reduced by the investments' book value, where applicable.

**Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined according to the first in, first out (FIFO) method.

**Deferred expenses**

Discounts and issue expenses on the long-term debt are deferred and amortized over the term of the debt. Discounts are amortized using the effective interest method to reflect the difference between the effective rate and the nominal rate of the debt. Issue expenses are amortized using the straight-line method.

**Fixed assets**

Fixed assets are recorded at cost or, if acquired free of charge, at the municipal assessment on the date of acquisition. They are depreciated over their estimated service lives on a diminishing-balance basis, at the following rates:

|                                          |          |
|------------------------------------------|----------|
| Buildings                                | 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  |

**Deferred contributions**

The deferred contributions presented in the General Fund are designed mainly to cover the charges of certain exhibitions beginning or continuing into subsequent fiscal years and are transferred to revenues in the fiscal year in which the related charges are committed.

The deferred contributions presented in the Fixed Assets Fund are related to the fixed assets and their maintenance and are transferred to revenues according to the same method and service life as those used for the amortization of the fixed assets to which they refer.

**Contributions in the form of services**

The Ministère de la Culture et des Communications provides the Musée with art restoration services free of charge. These services are not shown in the financial statements.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**4. CHANGE OF ACCOUNTING POLICY**

As of the current fiscal year, the Musée posts the works of art acquired through gifts at the fair value determined by an expert. Previously, these acquisitions were not recorded.

The retroactive application of these changes increases the following items in the financial statements:

|                                  | 2005        | 2004        |
|----------------------------------|-------------|-------------|
| <b>Income – General Fund</b>     |             |             |
| Proceeds – Gifts of works of art | \$3 791 970 | \$1 628 619 |
| Charges – Gifts of works of art  | 3 791 970   | 1 628 619   |

**5. GOUVERNEMENT DU QUÉBEC SUBSIDIES**

|                                                                              | 2005                |                      | 2004                |
|------------------------------------------------------------------------------|---------------------|----------------------|---------------------|
|                                                                              | General<br>Fund     | Fixed assets<br>Fund | Total               |
| Operating expenses                                                           | \$10 165 199        |                      | \$10 165 199        |
| Specific projects*                                                           | 610 324             |                      | 610 324             |
| Interest on long-term debt                                                   |                     | \$1 518 772          | 1 518 772           |
| Long term – Amortization of deferred<br>Gouvernement du Québec contributions |                     | 2 014 622            | 2 014 622           |
|                                                                              | <u>\$10 775 523</u> | <u>\$3 533 394</u>   | <u>\$14 308 917</u> |
|                                                                              |                     |                      | <u>\$15 694 662</u> |

\* These projects are principally linked to the Musée's different exhibitions and to the acquisition of works of art.

**6. GENERAL FUND - GOVERNMENT OF CANADA SUBSIDIES**

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Department of Foreign Affairs |                  | \$11 729         |
| Department of Heritage Canada | \$13 798         | 225 650          |
| Canada Council                | 252 615          | 164 914          |
|                               | <u>\$266 413</u> | <u>\$402 293</u> |

**7. NON-MONETARY TRANSACTIONS – GENERAL FUND**

The Musée exchanges goods and services with certain suppliers. These non-monetary transactions are posted to the following items in the statement of income at the fair value of the goods and services exchanged:

|                                  | 2005             | 2004             |
|----------------------------------|------------------|------------------|
| <b>Revenue</b>                   |                  |                  |
| Admission and cloakroom fees     | \$11 688         | \$9 140          |
| Room rental and related services | 95 022           | 119 523          |
| Sponsorships                     | 55 779           | 10 412           |
|                                  | <u>\$162 489</u> | <u>\$139 075</u> |

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

## 7. NON-MONETARY TRANSACTIONS – GENERAL FUND (cont'd)

|                                                 | 2005             | 2004             |
|-------------------------------------------------|------------------|------------------|
| <b>Expenditure</b>                              |                  |                  |
| Professional, administrative and other services | \$29 590         | \$31 367         |
| Rental of equipment and space                   | 44 386           | 45 026           |
| Transportation and communications               | 84 713           | 62 682           |
| Supplies                                        | 3 800            |                  |
|                                                 | <u>\$162 489</u> | <u>\$139 075</u> |

## 8. GENERAL FUND – CONTRIBUTION – FONDATION DU MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

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. It targets promoting the interests of the Musée national des beaux-arts du Québec 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 some office space and staff required for its smooth operation. Should the Fondation wind down, the full balance of funds would be remitted to the Musée. Fund balances as at March 31, 2005 amounted to \$202 077 (2004: \$226 840). During the fiscal year, the Fondation contributed an amount of \$265 000 (2004: \$100 000).

## 9. GENERAL FUND – WORKS OF ARTS

Works owned by the Musée du Québec are divided between the permanent and study collection and the collection of works for loan.

The permanent collection contains paintings, sculpture, illustrations, prints and photographs as well as decorative arts and design. This collection focuses on Québec art from all periods, from early to contemporary art.

The collection of works for loan was established by the Ministère des Affaires culturelles in 1982 as a measure to stimulate artistic creation in Québec through the acquisition of works by young artists. This collection, 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 fiscal 2004-2005, the works acquired by the Musée break down as follows:

|                           | Number of<br>works | 2005        | Number of<br>works | 2004        |
|---------------------------|--------------------|-------------|--------------------|-------------|
| Gifts of works of art     | 674                | \$3 791 970 | 445                | \$1 628 619 |
| Purchases of works of art | 145                | 1 534 341   | 116                | 569 177     |

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. INVESTMENT INCOME**

|                                                                                                              | 2005      | 2004      |
|--------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Revenue from unappropriated resources                                                                        | \$184 082 | \$187 059 |
| Revenue from resources held as allocations                                                                   | 152 838   | 7 825     |
| Total investment income earned during the fiscal year                                                        | 336 920   | 194 884   |
| Minus deferred amounts appropriated to fixed assets and acquisition of works of art for the Musée collection | (152 838) | (7 825)   |
| Total investment income accounted for as proceeds                                                            | \$184 082 | \$187 059 |

**11. INTERFUND TRANSFERS**

An amount of \$537 227 (2004: \$363 260), representing the portion of the Commercial Activities Fund balance exceeding \$400 000, was transferred to the General Fund to finance disbursements related to repaying Musée borrowings or activities.

**12. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST**

|                                                                                            | 2005      | 2004      |
|--------------------------------------------------------------------------------------------|-----------|-----------|
| Fondation du Musée national des beaux-arts du Québec, interest-free, no terms of repayment |           | \$261 725 |
| Accrued interest                                                                           | \$3 712   | 34 831    |
| Taxes receivable                                                                           | 115 717   | 182 295   |
| Other accounts                                                                             | 273 891   | 277 506   |
|                                                                                            | \$393 320 | \$756 357 |

**13. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

Gouvernement du Québec subsidies receivable presented in the short term break down as follows:

|                                                                           | 2005        | 2004        |
|---------------------------------------------------------------------------|-------------|-------------|
| Interest receivable                                                       | \$753 474   | \$780 496   |
| Repayment of capital on the long-term debt to be made in next fiscal year | 1 770 940   | 1 770 940   |
| Other subsidies receivable                                                | 378 601     | 1 114 678   |
|                                                                           | \$2 903 015 | \$3 666 114 |

Those presented as long-term break down as follows:

|                                                                       | 2005         | 2004         |
|-----------------------------------------------------------------------|--------------|--------------|
| Subsidies receivables for fixed assets and their maintenance          | \$25 886 667 | \$26 678 857 |
| Repayment of capital on long-term debt to be made in next fiscal year | (1 770 940)  | (1 770 940)  |
|                                                                       | \$24 115 727 | \$24 907 917 |

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**14. INVESTMENTS**

Since June 1, 2004, investments comprise only mutual fund shares. The latter are managed by an outside investment fund administrator under a management agreement and an investment policy that provides for an asset distribution formula to respect. Investments in mutual funds have no contractual maturity date.

**General Fund**

|                                                                           | 2005               | 2004               |
|---------------------------------------------------------------------------|--------------------|--------------------|
| Mutual fund – Money market, 2.58% yield<br>(market value – \$289 460)     | \$290 204          |                    |
| Mutual fund – Canadian bonds, 4.07% yield<br>(market value – \$1 085 907) | 1 080 275          |                    |
| Mutual fund – Canadian shares (market value – \$217 583)                  | 180 611            |                    |
| Mutual fund – US shares (market value – \$262 609)                        | 265 911            |                    |
| Mutual fund – International shares (market value –<br>\$99 739)           | 90 014             |                    |
| Canadian T-bills                                                          |                    | \$87 556           |
| Bonds                                                                     |                    | 1 425 688          |
|                                                                           | <u>\$1 907 015</u> | <u>\$1 513 244</u> |

**Endowment Fund**

|                                                                         | 2005               | 2004             |
|-------------------------------------------------------------------------|--------------------|------------------|
| Mutual fund – Money market, 2.58% yield<br>(market value – \$189 746)   | \$190 216          |                  |
| Mutual fund – Canadian bonds, 4.07% yield<br>(market value – \$682 794) | 678 900            |                  |
| Mutual fund – Canadian shares (market value – \$136 454)                | 113 325            |                  |
| Mutual fund – US shares (market value – \$165 696)                      | 168 887            |                  |
| Mutual fund – International shares (market value – \$55 486)            | 50 076             |                  |
| Canadian T-bills                                                        |                    | \$59 703         |
| Bonds                                                                   |                    | 509 109          |
| Public corporation common shares                                        |                    | 387 712          |
|                                                                         | <u>\$1 201 404</u> | <u>\$956 524</u> |

**15. FIXED ASSETS FUND – FIXED ASSETS**

|                                          | 2005                |                             | 2004                |
|------------------------------------------|---------------------|-----------------------------|---------------------|
|                                          | Cost                | Accumulated<br>depreciation | Net                 |
| Land*                                    | \$1 210 250         |                             | \$1 210 250         |
| Buildings*                               | 44 274 059          | \$21 120 640                | 23 153 419          |
| Building development                     | 5 218 185           | 3 239 887                   | 1 978 298           |
| Outside development                      | 487 052             | 341 337                     | 145 715             |
| Automotive equipment                     | 146 781             | 32 961                      | 113 820             |
| Specialized equipment                    | 1 576 467           | 677 007                     | 899 460             |
| Office furniture and equipment           | 296 242             | 174 477                     | 121 765             |
| Computer and office automation equipment | 2 204 869           | 1 905 346                   | 299 523             |
|                                          | <u>\$55 413 905</u> | <u>\$27 491 655</u>         | <u>\$27 922 250</u> |
|                                          |                     |                             | <u>\$28 953 380</u> |

\* The Musée acquired these buildings from the Gouvernement du Québec in 1985 and 1988 for the price of \$1 each. They were recorded according to the municipal assessment for these years. Subsequently, the Government authorized various expansion projects and major repairs.



## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**16. BANK BORROWINGS****General 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, 2005, the Musée had not contracted this borrowing.

The Gouvernement du Québec authorized the Musée, by Order-in-Council, to contract a credit line not to exceed \$211 750 for two permanent exhibitions including interest and borrowing fees foreseen in long-term financing. At March 31, 2005, the amount borrowed was \$175 000 (2004: \$175 000). This borrowing maturing at June 30, 2005 bear interest at the prime rate.

**Fixed Assets Fund**

The Gouvernement du Québec authorized the Musée to contract the following bank borrowings for fixed assets maintenance:

|                                                                                                                                                                                   | 2005               | 2004               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Credit line payable on demand, authorized by Order-in-Council for a maximum of \$822 800 bearing interest at the prime rate, contracted May 1, 2004, maturing June 30, 2005       | \$822 800          | \$822 800          |
| Credit line payable on demand, authorized by Order-in-Council for a maximum of \$705 200 bearing interest at the prime rate, contracted August 1, 2004, maturing June 30, 2005    | 705 200            | 705 200            |
| Credit line payable on demand, authorized by Order-in-Council for a maximum of \$808 800 bearing interest at the prime rate, contracted August 1, 2004, maturing June 30, 2005    | 808 800            | 808 800            |
| Credit line payable on demand, authorized by Order-in-Council for a maximum of \$1 313 700 bearing interest at the prime rate, contracted May 1, 2004, maturing June 30, 2005     | 1 313 700          | 1 110 819          |
| Credit line payable on demand, authorized by Order-in-Council for a maximum of \$809 400 bearing interest at the prime rate, contracted June 14, 2004, maturing June 30, 2005     | 809 400            |                    |
| Credit line payable on demand, authorized by Order-in-Council for a maximum of \$821 600 bearing interest at the prime rate, contracted February 28, 2005, maturing June 30, 2005 | 20 000             |                    |
|                                                                                                                                                                                   | <u>\$4 479 900</u> | <u>\$3 447 619</u> |

The maximum amount authorized by the Gouvernement du Québec for bank borrowings, including the borrowing fees foreseen in long-term financing, totalled \$5 326 099 (2004: \$4 459 900).

**17. ACCOUNTS PAYABLE AND ACCRUED**

|                                                                                            | 2005               | 2004               |
|--------------------------------------------------------------------------------------------|--------------------|--------------------|
| Fondation du Musée national des beaux-arts du Québec, interest-free, no terms of repayment | \$65 000           |                    |
| Salaries and fringe benefits payable                                                       | 204 760            | \$229 238          |
| Other accounts receivable                                                                  | 951 125            | 1 119 907          |
|                                                                                            | <u>\$1 220 885</u> | <u>\$1 349 145</u> |

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**18. DEFERRED CONTRIBUTIONS****General Fund**

|                                                 | 2005             | 2004             |
|-------------------------------------------------|------------------|------------------|
| Opening balance                                 | \$758 150        | \$589 183        |
| Amount recorded as proceeds for the fiscal year | (721 299)        | (451 033)        |
| Amount received for subsequent fiscal years     | 140 000          | 620 000          |
| Closing balance                                 | <u>\$176 851</u> | <u>\$758 150</u> |

Breaking down as follows:

|                        | 2005             | 2004             |
|------------------------|------------------|------------------|
| Gouvernement du Québec | \$136 975        | \$644 759        |
| Gouvernement du Canada | 19 876           | 83 391           |
| Other deferred income  | 20 000           | 30 000           |
|                        | <u>\$176 851</u> | <u>\$758 150</u> |

**Fixed Assets Fund**

|                                        | 2005                | 2004                |
|----------------------------------------|---------------------|---------------------|
| Opening balance                        | \$27 682 381        | \$30 218 519        |
| Gouvernement du Québec subsidies       | 978 751             | 1 157 858           |
| Amortization of deferred contributions | (2 014 622)         | (3 693 996)         |
| Closing balance                        | <u>\$26 646 510</u> | <u>\$27 682 381</u> |

**19. FIXED ASSETS FUND – LONG-TERM DEBT**

|                                                                                                                                                                                                                                                    | 2005                | 2004                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Borrowing on a note from the Financing Fund of the<br>Gouvernement du Québec, 6.261%, guaranteed by<br>the Gouvernement du Québec, repayable in annual<br>instalments of \$1 430 584, maturing in April 2017                                       | \$18 597 601        | \$20 028 186        |
| Borrowing on a note from the Financing Fund of the<br>Gouvernement du Québec, 5.825%, guaranteed by<br>the Gouvernement du Québec, repayable in annual<br>instalments of \$164 416 on the principal of the<br>borrowing, maturing in December 2010 | 1 150 905           | 1 315 320           |
| Borrowing on a note from the Financing Fund of the<br>Gouvernement du Québec, 6.85%, guaranteed by<br>the Gouvernement du Québec, repayable in annual<br>instalments of \$175 940, maturing in October 2007                                        | <u>1 759 400</u>    | <u>1 935 340</u>    |
|                                                                                                                                                                                                                                                    | 21 507 906          | 23 278 846          |
| Instalments due within one year                                                                                                                                                                                                                    | <u>(1 770 940)</u>  | <u>(1 770 940)</u>  |
|                                                                                                                                                                                                                                                    | <u>\$19 736 966</u> | <u>\$21 507 906</u> |

Principal payments on these borrowings are made annually out of subsidies provided for this purpose by the Gouvernement du Québec.

## MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**19. FIXED ASSETS FUND – LONG-TERM DEBT (cont'd)**

Payments of principal on the long-term debt for the next five fiscal years are as follows:

|      |             |
|------|-------------|
| 2006 | \$1 770 940 |
| 2007 | 1 770 940   |
| 2008 | 3 002 520   |
| 2009 | 1 595 000   |
| 2010 | 1 595 000   |

**20. 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 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.

**21. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Musée du Québec participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Musée's contributions charged to the year-end statement amount to \$213 839 (2004: \$194 397) for the General Fund and \$6 355 (2004: \$6 175) for the Commercial Activities Fund. The Musée's liability towards these Government plans is restricted to its contributions as an employer.

**Provision for vacation time and sick leave**

|                               | 2005             |                  | 2004             |                    |
|-------------------------------|------------------|------------------|------------------|--------------------|
|                               | Vacation<br>time | Sick<br>leave    | Vacation<br>time | Sick<br>leave      |
| Opening balance               | \$603 102        | \$1 090 247      | \$586 644        | \$1 050 253        |
| Charge for the year           | 489 527          | (153 075)        | 475 462          | 121 127            |
| Benefits paid during the year | (450 168)        | (107 752)        | (459 004)        | (81 133)           |
| Closing balance               | <u>\$642 461</u> | <u>\$829 420</u> | <u>\$603 102</u> | <u>\$1 090 247</u> |

**22. FINANCIAL INSTRUMENTS****Investments**

The fair value of investments is presented in Note 14. The market value of securities held in the mutual funds is established in relation to the market closing rates at the date of the balance sheet. When the value of the underlying assets held in the mutual funds decreases, the value of the shares also drops.

**Gouvernement du Québec subsidies receivable**

At March 31, 2005, the fair value of the \$27 018 742 (2004: \$28 574 031) Gouvernement du Québec subsidy receivable (including its short-term portion) was \$29 107 871 (2004: \$30 833 301).

**MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**22. FINANCIAL INSTRUMENTS (cont'd)****Long-term debt**

At March 31, 2005, the fair value of the \$21 507 906 (2004: \$23 278 846) long-term debt was \$23 597 035 (2004: \$25 538 116), given the discounting of cash flows as market rates for securities whose maturity dates and interest rates are similar.

**Current assets and liabilities**

The fair value of short-term financial instruments equals their book value given that they mature in the near future.

**23. 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.

The rental expenditure for the fiscal year ending March 31, 2005 for these premises totalled \$180 904. Minimum future payments break down as follows:

|                     |           |
|---------------------|-----------|
| 2006                | \$180 904 |
| 2007                | 180 904   |
| 2008                | 180 904   |
| 2009                | 180 904   |
| 2010                | 180 904   |
| 2011 and thereafter | 2 396 978 |

**24. CONTINGENCIES**

The Musée's unionized employees are represented by two unions whose respective collective agreements matured on June 30, 2003 and December 31, 2003.

On January 9, 2004, the Superior Court ruled on the wage equity file. On June 15, 2004, the government published the budgetary framework of its remuneration policy, which restricted wage adjustments throughout the public and parapublic sectors to 12.6% over a 6-year period—from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized employees as well as the wage equity file.

In principle, the wage adjustments negotiated for public-service employees will be applied to the Musée's wage scales retroactive to the same dates. The Musée is also currently proceeding with its own wage equity work, as required by the Commission de l'équité salariale, which recognized the Musée as an autonomous employer that is separate from the Conseil du trésor.

The government is currently negotiating with its different associations, so that the monetary impact remains undetermined for the Musée.

**25. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC****MANAGEMENT'S REPORT**  
for the year ended March 31, 2005

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The financial statements of the Musée national des beaux-arts du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out 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.

The Auditor General of Québec has audited the Musée's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

John R. Porter  
Executive Director

Marc Delaunay  
Director, Administration and Communications

Québec, June 17, 2005

**MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Musée national des beaux-arts du Québec as at March 31, 2005 and the statements of income, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, with the exception of the effects, indicated in the preceding paragraph, of the improper recording of the charges related to the sick leave and vacation time of Musée employees, these financial statements present fairly, in all material respects, the Musée's financial position as at March 31, 2005 and the results of its operations and cash flows 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, given the retroactive application of the change to in recording works of art acquired through gifts, disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, June 17, 2005

**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /**  
**CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**  
(R.S.Q., c. O-2.1)

OPERATIONS AND DEFICIT  
for the year ended June 30, 2004

|                                                         | <u>2004</u>       | <u>2003</u>       |
|---------------------------------------------------------|-------------------|-------------------|
| <b>REVENUE</b>                                          |                   |                   |
| Gouvernement du Québec contribution                     | \$17 861 556      | \$17 335 995      |
| Interest                                                | <u>933</u>        | <u>1 129</u>      |
|                                                         | <u>17 862 489</u> | <u>17 337 124</u> |
| <b>EXPENDITURE</b>                                      |                   |                   |
| Income security benefits                                | 16 441 056        | 16 134 395        |
| Administrative expenses                                 |                   |                   |
| Salaries and fringe benefits                            | 999 027           | 931 968           |
| Travel                                                  | 162 117           | 117 263           |
| Rent                                                    | 94 752            | 77 511            |
| Professional fees                                       | 3 113             | 13 439            |
| Computer supplies and maintenance                       | 151 741           |                   |
| Supplies and equipment                                  | 29 341            | 30 269            |
| Telephone and communications                            | 16 278            | 16 953            |
| Depreciation of fixed assets                            | <u>78 167</u>     | <u>658</u>        |
|                                                         | 1 534 536         | 1 188 061         |
|                                                         | <u>17 975 592</u> | <u>17 322 456</u> |
| <b>EXCESS (DEFICIENCY) REVENUE<br/>OVER EXPENDITURE</b> | (113 103)         | 14 668            |
| <b>SURPLUS, BEGINNING OF YEAR</b>                       | <u>58 544</u>     | <u>43 876</u>     |
| <b>DEFICIT, END OF YEAR</b>                             | <u>\$(54 559)</u> | <u>\$58 544</u>   |

**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /  
CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**

**BALANCE SHEET**  
as at June 30, 2004

|                                      | <u>2004</u>        | <u>2003</u>        |
|--------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                        |                    |                    |
| <b>Current assets</b>                |                    |                    |
| Cash (Note 3)                        | \$90 296           | \$77 666           |
| Term deposit, 1%, expiring July 2004 | 55 000             |                    |
| Accounts receivable (Note 4)         | <u>2 447 247</u>   | <u>2 326 778</u>   |
|                                      | 2 592 543          | 2 404 444          |
| <b>Fixed assets</b> (Note 5)         | <u>715 717</u>     | <u>240 295</u>     |
|                                      | <u>\$3 308 260</u> | <u>\$2 644 739</u> |
| <br><b>LIABILITIES</b>               |                    |                    |
| <b>Current liabilities</b>           |                    |                    |
| Borrowing (Note 6)                   | \$862 801          | \$125 488          |
| Accounts payable (Note 7)            | 2 481 315          | 2 294 284          |
| Owed to Insurance Fund (Note 12)     | <u>18 703</u>      | <u>166 423</u>     |
|                                      | 3 362 819          | 2 586 195          |
| <b>DEFICIT</b>                       | <u>(54 559)</u>    | <u>58 544</u>      |
|                                      | <u>\$3 308 260</u> | <u>\$2 644 739</u> |
| <br><b>COMMITMENTS</b> (Note 8)      |                    |                    |
| <b>INSURANCE FUND</b> (Note 12)      |                    |                    |

On behalf of l'Office de la sécurité du revenu  
des chasseurs et piégeurs cris,  
Gérald Lemoyne  
George Wapachee



**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /  
CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**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 administering the income security program established under this Act for the purpose of providing the trappers and hunters with a guaranteed income; this program 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.

The sums required to implement the aforementioned Act are paid out of the funds voted each year for such purpose by Parliament.

**2. ACCOUNTING POLICIES**

**Accounting estimates**

The Board's financial statements prepared by management in keeping with Canadian generally accepted accounting principles. These statements include amounts based on best judgments and 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.

**Administrative expenses assumed by the Gouvernement du Québec**

The cost of certain support services assumed by the Gouvernement du Québec has not been included in the statement of operations and deficit.

**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.

**Benefits**

Benefits are posted when authorized and when the beneficiary meets the eligibility criteria, should there be any.

**Fixed assets**

Fixed assets are recorded at cost and amortized over their service life using the following method and rate:

|                        | Method                  | Rate    |
|------------------------|-------------------------|---------|
| Software               | Straight-line<br>method | 5 years |
| Leasehold improvements | Straight-line<br>method | 7 years |

Computer development was not amortized because it was not operational at year-end.

**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /  
CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**3. CASH**

Cash includes a sum of \$30 000 held in a trust account and allocated by resolution of the members of the Board to benefit payments including, among other things, advance payments and emergency payments where the usual cheque-issuing procedure would cause excessive delays for the beneficiary.

**4. ACCOUNTS RECEIVABLE**

|                                                                                        | 2004               | 2003               |
|----------------------------------------------------------------------------------------|--------------------|--------------------|
| Ministère de l'Emploi, de la Solidarité sociale et<br>de la Famille subsidy receivable | \$2 446 707        | \$2 322 850        |
| Other                                                                                  | 540                | 3 928              |
|                                                                                        | <u>\$2 447 247</u> | <u>\$2 326 778</u> |

**5. FIXED ASSETS**

|                        | 2004             |                             | 2003             |
|------------------------|------------------|-----------------------------|------------------|
|                        | Cost             | Accumulated<br>depreciation | Net              |
| Software               | \$755 358        | \$75 536                    | \$679 822        |
| Leasehold improvements | 18 416           | 3 289                       | 15 127           |
| Computer development   | 20 768           |                             | 20 768           |
|                        | <u>\$794 542</u> | <u>\$78 825</u>             | <u>\$715 717</u> |
|                        |                  |                             | <u>\$240 295</u> |

The financial year purchases add up to \$553 588.

**6. BORROWING**

At June 30, 2004, the Board had a credit line of \$2 000 000 guaranteed by the Ministère de l'Emploi, de la Solidarité sociale et de la Famille until December 31, 2008. Amounts used bear interest at the average bank acceptance rate. At June 30, this rate was 2.35%.

**7. ACCOUNTS PAYABLE**

|                              | 2004               | 2003               |
|------------------------------|--------------------|--------------------|
| Income security benefits     | \$2 426 900        | \$2 156 427        |
| Suppliers                    | 31 111             | 110 224            |
| Salaries and fringe benefits | 23 304             | 27 633             |
|                              | <u>\$2 481 315</u> | <u>\$2 294 284</u> |

**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /  
CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**8. COMMITMENTS**

The Board is committed, under contracts for professional services, to develop and maintain its computer system until 2006 which include a two years renewal option.

The Board is also committed under long-term leases for administrative offices expiring on various dates between until 2010. In some cases, these leases include a five-year renewal option. Rental costs for the year ended June 30, 2004 for administrative offices totaled \$43 712.

Minimum future payments on these commitments are as follows:

|                     |                         |
|---------------------|-------------------------|
| 2005                | \$551 574               |
| 2006                | 195 425                 |
| 2007                | 54 649                  |
| 2008                | 51 852                  |
| 2009                | 43 458                  |
| 2010 and thereafter | <u>32 593</u>           |
|                     | <u><u>\$929 551</u></u> |

**9. PENSION PLANS**

Board staff members participate in the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP). These are multiemployer defined benefit plans and include guaranteed payments upon retirement or death.

The Board's contributions charged to year-end statement amount to \$25 628 (2003: \$24 185). The Board's liability towards these Government plans is restricted to its contributions as an employer.

**10. 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 pending maturity date.

**11. 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.

**12. INSURANCE FUND**

Complementary Agreement #15 amending Section 30 of the James Bay and Northern Québec Agreement came into effect on July 1, 2002. An insurance fund administered by the Board was created to fund 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.

**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /  
CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
June 30, 2004

**12. INSURANCE FUND (cont'd)**

The Insurance Fund's results and financial position for the year ending June 30, 2004 are as follows:

|                                           | 2004             | 2003             |
|-------------------------------------------|------------------|------------------|
| <b>Operations and surplus</b>             |                  |                  |
| <b>Revenue</b>                            |                  |                  |
| Gouvernement du Québec contribution       | \$173 177        | \$169 111        |
| Beneficiaries' contribution               | 173 177          | 169 111          |
| Interest                                  | 8 431            |                  |
|                                           | <u>354 785</u>   | <u>338 222</u>   |
| <b>Expenditure</b>                        |                  |                  |
| Sick leave and disaster benefits          | 278 334          | 257 408          |
| Bank fees                                 | 85               |                  |
|                                           | <u>278 419</u>   | <u>257 408</u>   |
| Excess revenue over expenditure           | 76 366           | 80 814           |
| Surplus, beginning of year                | 80 814           |                  |
| Surplus, end of year                      | <u>\$157 180</u> | <u>\$80 814</u>  |
| <b>Balance sheet</b>                      |                  |                  |
| <b>Current assets</b>                     |                  |                  |
| Cash                                      | \$650 604        |                  |
| Board account receivable                  | 18 703           | \$166 423        |
| Gouvernement du Québec account receivable | 19 815           | 169 111          |
|                                           | <u>\$689 122</u> | <u>\$335 534</u> |
| <b>Liability</b>                          |                  |                  |
| Sick leave payable                        | \$531 942        | \$254 720        |
| Surplus                                   | <u>157 180</u>   | <u>80 814</u>    |
|                                           | <u>\$689 122</u> | <u>\$335 534</u> |

**13. COMPARATIVE FIGURES**

Certain 2003 figures were reclassified for consistency with presentation adopted in 2004.

**OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS /  
CREE HUNTERS AND TRAPPERS INCOME SECURITY BOARD**

MANAGEMENT'S REPORT

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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 involved 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 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 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 his audit and his opinion.

On behalf of l'Office de la sécurité  
du revenu des chasseurs et piégeurs cris,  
Gérald Lemoyne

Québec, September 13, 2004

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AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the Cree Hunters and Trappers Income Security Board as at June 30, 2004 and the statement of operations and deficit 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, 2004 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.

Renaud Lachance, CA  
Auditor General of Québec

Québec, September 13, 2004

**OFFICE DES PROFESSIONS DU QUÉBEC**  
(R.S.Q., c. C-26)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                                                      | <u>2005</u>            | <u>2004</u>               |
|----------------------------------------------------------------------|------------------------|---------------------------|
| <b>REVENUE</b>                                                       |                        |                           |
| Contributions from members of professional corporations              | \$7 087 611            | \$6 628 603               |
| Interest                                                             | 42 272                 | 38 573                    |
| Fees for managing the Ordre des sages-femmes du Québec Fund (Note 8) | 4 707                  | 6 641                     |
| Other                                                                | <u>5 169</u>           | <u>32 348</u>             |
|                                                                      | <u>7 139 759</u>       | <u>6 706 165</u>          |
| <b>EXPENDITURE</b>                                                   |                        |                           |
| <b>Administrative expenses</b>                                       |                        |                           |
| Salaries and fringe benefits                                         | 3 238 922              | 2 865 859                 |
| Transportation and communications                                    | 132 025                | 124 587                   |
| Professional and administrative services                             | 503 088                | 417 331                   |
| Rent and maintenance                                                 | 283 064                | 285 083                   |
| Materials and supplies                                               | 87 841                 | 59 833                    |
| Interest on advances from the Consolidated Revenue Fund              | 2 561                  | 20 919                    |
| Amortization of fixed assets                                         | 77 669                 | 82 249                    |
| Amortization of intangible assets                                    | <u>28 269</u>          | <u>35 730</u>             |
|                                                                      | 4 353 439              | 3 891 591                 |
| Fees and reimbursements (Note 3)                                     | <u>1 781 558</u>       | <u>1 664 936</u>          |
|                                                                      | <u>6 134 997</u>       | <u>5 556 527</u>          |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                               | 1 004 762              | 1 149 638                 |
| <b>DEFICIT, BEGINNING OF YEAR</b>                                    | <u>(974 347)</u>       | <u>(2 123 985)</u>        |
| <b>SURPLUS (DEFICIT), END OF YEAR</b>                                | <u><u>\$30 415</u></u> | <u><u>\$(974 347)</u></u> |

The notes are an integral part of these financial statements.

## OFFICE DES PROFESSIONS DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                                   | 2005               | 2004             |
|-------------------------------------------------------------------|--------------------|------------------|
| <b>ASSETS</b>                                                     |                    |                  |
| <b>Current assets</b>                                             |                    |                  |
| Cash on hand                                                      | \$734 780          | \$175 676        |
| Accounts receivable                                               | 374 849            | 291 027          |
|                                                                   | <u>1 109 629</u>   | <u>466 703</u>   |
| <b>Fixed assets</b> (Note 4)                                      | 128 537            | 111 441          |
| <b>Intangible assets</b> (Note 5)                                 | 219 732            | 183 426          |
|                                                                   | <u>\$1 457 898</u> | <u>\$761 570</u> |
| <b>LIABILITIES</b>                                                |                    |                  |
| <b>Current liabilities</b>                                        |                    |                  |
| Accounts payable and accruals                                     | \$593 695          | \$383 766        |
| Owing to the Consolidated Revenue Fund (Note 6)                   |                    | 500 000          |
| Sum owing to the Ordre des sages-femmes<br>du Québec (Note 8)     | 96 000             | 96 000           |
|                                                                   | <u>689 695</u>     | <u>979 766</u>   |
| <b>Provision for sick leave and vacation time</b> (Note 7)        | 642 929            | 564 095          |
| <b>Sum owing to the Ordre des sages-femmes du Québec</b> (Note 8) | 94 859             | 192 056          |
|                                                                   | <u>1 427 483</u>   | <u>1 735 917</u> |
| <b>SURPLUS (DEFICIT)</b>                                          | 30 415             | (974 347)        |
|                                                                   | <u>\$1 457 898</u> | <u>\$761 570</u> |

The notes are an integral part of these financial statements.

On behalf of the Office des professions du Québec,  
Gaétan Lemoyne

**OFFICE DES PROFESSIONS DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

The Office des professions du Québec was established by the Professional Code (R.S.Q., c. C-26) for the purpose of ensuring that all professional corporations protect the public.

The Office answers to the Minister responsible for administering the legislation governing these professions designated by the Government. Its operations are financed out of the dues paid by members of professional corporations. These dues are collected by the professional corporations, which then remit them to the Office. The Professional Code stipulates that in calculating this contribution it shall be increased or decreased to reflect deficits or surpluses from previous fiscal years.

**2. ACCOUNTING POLICIES**

The financial statements of the Office were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The cash flow statement is not shown as it would not provide any useful additional information regarding the Office's cash flow during the year.

**Fixed assets**

Fixed assets are recorded at cost and are depreciated over their estimated service lives on a straight-line basis at the following rates:

|                           | <u>Rates</u>                    |
|---------------------------|---------------------------------|
| Data processing equipment | 33 1/3%                         |
| Telephone equipment       | 20%                             |
| Furniture                 | 20%                             |
| Leasehold improvements    | Duration of occupancy agreement |

**Intangible assets**

Computer development is recorded at cost and amortized over its service life using the straight-line method at 20%. It undergoes a depreciation test when changes in the situation indicate that it may not be possible to recover its book value. Any excess book value over the fair value is posted to results for the period in which the depreciation was determined.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Office lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**3. FEES AND REIMBURSEMENTS**

In accordance with the Professional Code, the Office assumes the following expenses:

- Fees or allowances paid to the chairs of the disciplinary boards of professional corporations. The amount of these fees or allowances is set by the Government. For grievances whose hearing began after November 7, 2002, fees can be paid at the request of the committee chair following the tabling of a decision awarded on a request for temporary strike-off, a decision involving blame or a fine and any other decision for which appeal has been granted or an application for judicial review tabled. For grievances whose hearing began before November 7, 2002, fees are paid when the grievance file is closed and after the board's decision has been transmitted to the corporation and received by the Office.
- Attendance allowances and the reimbursement of fees, within reason, incurred by the directors appointed by the Office to professional boards to represent the public.



## OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. FEES AND REIMBURSEMENTS (cont'd)**

These expenditures break down as follows:

|                                                            | 2005               | 2004               |
|------------------------------------------------------------|--------------------|--------------------|
| Chairs of disciplinary boards of professional corporations | \$1 419 260        | \$1 292 968        |
| Office-appointed directors                                 | 362 298            | 371 968            |
|                                                            | <u>\$1 781 558</u> | <u>\$1 664 936</u> |

**4. FIXED ASSETS**

|                           | 2005             |                          | 2004             |
|---------------------------|------------------|--------------------------|------------------|
|                           | Cost             | Accumulated depreciation | Net              |
| Data processing equipment | \$469 561        | \$376 171                | \$93 390         |
| Telephone equipment       | 29 307           | 29 293                   | 14               |
| Furniture                 | 111 366          | 76 823                   | 34 543           |
| Leasehold improvements    | 62 584           | 61 994                   | 590              |
|                           | <u>\$672 818</u> | <u>\$544 281</u>         | <u>\$128 537</u> |
|                           |                  |                          | <u>\$111 441</u> |

Acquisitions for the year amount to \$86 383 (2004: \$29 491).

**5. INTANGIBLE ASSETS**

|                                      | 2005      |                          | 2004             |
|--------------------------------------|-----------|--------------------------|------------------|
|                                      | Cost      | Accumulated depreciation | Net              |
| Cost of computer systems development | \$449 624 | \$229 892                | \$219 732        |
|                                      |           |                          | <u>\$183 426</u> |

Acquisitions for the year amount to \$64 575 (2004: \$98 015).

**6. SUM OWING TO THE CONSOLIDATED REVENUE FUND**

Interest on advances from the Consolidated Revenue Fund is calculated at the National Bank of Canada's prime rate in effect for the duration of these advances. The Office paid \$3 779 in interest during the fiscal year (2004: \$28 849).

**7. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Office participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These interenterprise plans are defined-benefit plans and include guaranteed payments upon retirement and death.

The Office's contributions charged to the year-end statement amount to \$108 155 (2004: \$110 111). The liability of the Office towards these Government plans is restricted to its contributions as an employer.

**OFFICE DES PROFESSIONS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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

|                                             | 2005             | 2004             |
|---------------------------------------------|------------------|------------------|
| Obligation for sick leave and vacation time | \$1 048 435      | \$1 037 186      |
| Transient unamortized obligation            | (405 506)        | (473 091)        |
|                                             | <u>\$642 929</u> | <u>\$564 095</u> |
| Charge for the year                         | <u>\$392 490</u> | <u>\$383 224</u> |
| Benefits paid during the year               | <u>\$313 656</u> | <u>\$274 324</u> |

**8. SUM OWING TO THE ORDRE DES SAGES-FEMMES DU QUÉBEC**

The sum owing to the Ordre des sages-femmes du Québec represents the balance of the fund managed by the Office des professions du Québec under the provisions of the Act respecting midwives (R.S.Q., chapter S-0.1). This \$1 000 000 fund originating from amounts reserved for funding pilot projects but not yet committed was created in order to allow the Ordre des sages-femmes du Québec to fulfil, during its first eight years of operations, all of its obligations under its incorporating legislation.

The Office must pay the Ordre des sages-femmes du Québec the sum established when the Fund was created, calculated by backward averaging.

The interest generated by the Fund is reinvested in it and management fees are paid to the Office from this interest.

Change in the Fund for the fiscal year ended March 31, 2005:

|                                                  | 2005             | 2004             |
|--------------------------------------------------|------------------|------------------|
| Opening balance                                  | \$288 056        | \$383 527        |
| Payments to the Ordre des sages-femmes du Québec | (96 000)         | (96 000)         |
| Interest generated                               | 3 510            | 7 170            |
| Management fees paid to the Office               | (4 707)          | (6 641)          |
| Fund balance                                     | <u>\$190 859</u> | <u>\$288 056</u> |

The sum owing breaks down as follows:

|                                                 |                 |                  |
|-------------------------------------------------|-----------------|------------------|
| Sum owing                                       | \$190 859       | \$288 056        |
| Less: Portion payable in the coming fiscal year | <u>96 000</u>   | <u>96 000</u>    |
|                                                 | <u>\$94 859</u> | <u>\$192 056</u> |

The portion payable in the coming fiscal year is estimated using the estimates of the Ordre des sages-femmes du Québec.

**OFFICE DES PROFESSIONS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**9. 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 either joint control or significant influence by it. The Office did not carry out 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. FINANCIAL INSTRUMENTS**

The fair 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 the amount owing to the Ordre des sages-femmes cannot be estimated, given the absence of markets for this type of debt.

**OFFICE DES PROFESSIONS DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Office des professions du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Office des professions 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Gaétan Lemoyne  
President

Christian Rény  
Director, Management Consulting Services

Québec, June 20, 2005

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**AUDITOR'S REPORT**

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To The National Assembly

I have audited the balance sheet of the Office des professions du Québec as at March 31, 2005 and the statement of revenue and expenditure and deficit for the year then ended. These financial statements are the responsibility of Office management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 2005 and the results of its operations and cash flows 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., chapter 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 General of Québec

Québec, June 20, 2005

**OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**  
(R.S.Q., c. O-5.1)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                                 | <u>2005</u>             | <u>2004</u>             |
|-------------------------------------------------|-------------------------|-------------------------|
| <b>REVENUE</b>                                  |                         |                         |
| Ministère des Relations internationales subsidy | \$2 000 000             | \$2 000 000             |
| Emploi-Québec subsidy                           | 313 717                 | 311 712                 |
| Secrétariat à la Jeunesse subsidy               | 20 000                  |                         |
| Fonds Jeunesse Québec                           |                         | 230 581                 |
| Interest on bank deposits                       | 21 157                  | 25 787                  |
| Other revenue                                   | 9 871                   |                         |
|                                                 | <u>2 364 745</u>        | <u>2 568 080</u>        |
| <br><b>EXPENDITURE (Note 3)</b>                 |                         |                         |
| Programs and development                        | 1 776 523               | 1 923 121               |
| Communications                                  | 245 983                 | 244 446                 |
| Administration                                  | 324 922                 | 344 025                 |
|                                                 | <u>2 347 428</u>        | <u>2 511 592</u>        |
| <br><b>EXCESS REVENUE OVER EXPENDITURE</b>      | 17 317                  | 56 488                  |
| <br><b>SURPLUS, BEGINNING OF YEAR</b>           | <u>274 043</u>          | <u>217 555</u>          |
| <br><b>SURPLUS, END OF YEAR</b>                 | <u><u>\$291 360</u></u> | <u><u>\$274 043</u></u> |

The notes are an integral part of these financial statements.

**OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**BALANCE SHEET  
as at March 31, 2005

|                                               | <u>2005</u>      | <u>2004</u>      |
|-----------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                 |                  |                  |
| <b>Current assets</b>                         |                  |                  |
| Cash on hand                                  | \$6 191          | \$95 410         |
| Term deposit, 1.95% maturing in November 2005 | 325 000          | 200 000          |
| Accounts receivable (Note 4)                  | 90 362           | 87 330           |
| Prepaid expenses                              | 1 700            | 1 724            |
|                                               | <u>423 253</u>   | <u>384 464</u>   |
| <b>Fixed assets</b> (Note 5)                  | <u>94 004</u>    | <u>139 781</u>   |
|                                               | <u>\$517 257</u> | <u>\$524 245</u> |
| <b>LIABILITIES</b>                            |                  |                  |
| <b>Current liabilities</b>                    |                  |                  |
| Accounts payable (Note 7)                     | \$225 897        | \$250 202        |
| <b>SURPLUS</b>                                | <u>291 360</u>   | <u>274 043</u>   |
|                                               | <u>\$517 257</u> | <u>\$524 245</u> |

**COMMITMENTS** (Note 9)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Lucie Latulippe  
President and Chief Executive Officer

Patrick Préfontaine  
Vice-President

**OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE****CASH FLOWS**  
for the year ended March 31, 2005

|                                                         | <u>2005</u>             | <u>2004</u>             |
|---------------------------------------------------------|-------------------------|-------------------------|
| <b>OPERATING ACTIVITIES</b>                             |                         |                         |
| Excess revenue over expenditure                         | \$17 317                | \$56 488                |
| Items not affecting liquid assets:                      |                         |                         |
| Depreciation of fixed assets                            | 55 736                  | 65 512                  |
| Loss on disposal of intangible assets                   | <u>101</u>              | <u>2 636</u>            |
|                                                         | 73 154                  | 124 636                 |
| <b>Change in non-cash items linked to operations</b>    |                         |                         |
| Accounts receivable                                     | (3 032)                 | (22 990)                |
| Prepaid expenses                                        | 24                      | 21 198                  |
| Accounts payable                                        | (24 305)                | (21 289)                |
| Fonds Jeunesse Québec                                   |                         | (3 408)                 |
| Deferred revenue                                        | <u></u>                 | <u>(20 477)</u>         |
|                                                         | (27 313)                | (46 966)                |
| Cash flows provided by operating activities             | <u>45 841</u>           | <u>77 670</u>           |
| <b>INVESTMENT ACTIVITIES</b>                            |                         |                         |
| Cash flows used for investment activities               |                         |                         |
| Acquisition of fixed assets                             | <u>(10 060)</u>         | <u>(10 526)</u>         |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>            | 35 781                  | 67 144                  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <u>295 410</u>          | <u>228 266</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10)</b> | <u><u>\$331 191</u></u> | <u><u>\$295 410</u></u> |

The notes are an integral part of these financial statements.

**OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

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**1. CONSTITUTION AND PURPOSE**

The Office was established under the Act respecting the Office Québec-Amériques pour la jeunesse, (R.S.Q., c. O-5.1). Its purpose is to develop relations between the youth of Québec and other American peoples, to increase the 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 is not subject to income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Office were prepared by management in keeping with the accounting principles that are generally recognized in Canada. These statements include amounts based on best judgements and estimates.

**Short-term investments**

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

**Fixed assets**

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

|                                |         |
|--------------------------------|---------|
| Office furniture and equipment | 20%     |
| Leasehold improvements         | 10%     |
| Data processing equipment      | 33 1/3% |

**Program expenses**

Program expenses are recorded when authorized and when the beneficiaries have met the eligibility criteria, where applicable.

**Cash and cash equivalents**

The Office's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easily convertible in the short term and a known amount of cash whose value should not change significantly.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise 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 FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**3. EXPENDITURE**

|                                          | 2005               |     | 2004               |
|------------------------------------------|--------------------|-----|--------------------|
| <b>Programs</b>                          |                    |     |                    |
| Regular projects                         | \$847 805          |     | \$830 907          |
| Salaries and fringe benefits             | 465 213            |     | 447 091            |
| Participation allowances - Emploi-Québec | 263 717            |     | 263 603            |
| Special projects                         | 74 776             |     | 249 997            |
|                                          | <u>1 651 511</u>   |     | <u>1 791 598</u>   |
| <b>Development</b>                       |                    |     |                    |
| Mission abroad                           | 36 699             |     | 35 856             |
| Cost of travel within Québec             | 27 788             |     | 24 852             |
| Development in Mexico                    | 49 989             |     | 59 284             |
| Event, membership and representation     | 10 536             |     | 11 531             |
|                                          | <u>125 012</u>     |     | <u>131 523</u>     |
|                                          | 1 776 523          | 76% | 1 923 121 76%      |
| <b>Communications</b>                    |                    |     |                    |
| Salaries and fringe benefits             | 191 219            |     | 189 910            |
| Promotional material                     | 34 857             |     | 36 444             |
| Advertising                              | 16 584             |     | 15 323             |
| Subscriptions and publications           | 3 323              |     | 2 769              |
|                                          | <u>245 983</u>     | 10% | 244 446 10%        |
| <b>Administration</b>                    |                    |     |                    |
| Salaries and fringe benefits             | 149 666            |     | 155 330            |
| Rent                                     | 63 125             |     | 63 125             |
| Telecommunications                       | 18 019             |     | 18 694             |
| Operating costs                          | 25 958             |     | 24 534             |
| Mail and courier                         | 4 583              |     | 5 190              |
| Insurance                                | 7 397              |     | 7 111              |
| Board of administration expenses         | 337                |     | 1 893              |
| Amortization of fixed assets             | 55 736             |     | 65 512             |
| Loss on transfer of fixed assets         | 101                |     | 2 636              |
|                                          | <u>324 922</u>     | 14% | 344 025 14%        |
|                                          | <u>\$2 347 428</u> |     | <u>\$2 511 592</u> |

**4. ACCOUNTS RECEIVABLE**

|                     | 2005            |  | 2004            |
|---------------------|-----------------|--|-----------------|
| Emploi-Québec       | \$86 217        |  | \$66 712        |
| Sales tax           | 1 459           |  | 1 722           |
| Interest receivable | 194             |  | 13 992          |
| Other               | 2 492           |  | 4 904           |
|                     | <u>\$90 362</u> |  | <u>\$87 330</u> |

**OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**5. FIXED ASSETS**

|                                | 2005             |                           | 2004             |
|--------------------------------|------------------|---------------------------|------------------|
|                                | Cost             | Cumulated<br>amortization | Net              |
| Office furniture and equipment | \$79 685         | \$67 532                  | \$12 153         |
| Leasehold improvements         | 118 082          | 55 859                    | 62 223           |
| Data processing equipment      | 119 452          | 99 824                    | 19 628           |
|                                | <u>\$317 219</u> | <u>\$223 215</u>          | <u>\$94 004</u>  |
|                                |                  |                           | <u>\$139 781</u> |

**6. BANK OVERDRAFT**

At March 31, 2005, the Office has a credit margin of \$200 000, renewable annually on June 30. The amounts used bear interest daily at the prime rate plus 0.75%.

The amount authorized was authorized, where applicable, based on the subsidies approved by the Gouvernement du Québec.

**7. ACCOUNTS PAYABLE**

|                                         | 2005             | 2004             |
|-----------------------------------------|------------------|------------------|
| Ministère des Relations internationales | \$133 952        | \$131 980        |
| Suppliers                               | 18 508           | 46 467           |
| Salaries and at-source deductions       | <u>73 437</u>    | <u>71 755</u>    |
|                                         | <u>\$225 897</u> | <u>\$250 202</u> |

**8. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

**9. COMMITMENTS**

The Office is committed under a long-term lease ending in fiscal 2011 for administrative offices.

The rental expenditures for the year ending March 31, 2005 total \$63 125. Minimum future payments are as follows:

|      |                  |
|------|------------------|
| 2006 | \$67 500         |
| 2007 | 70 000           |
| 2008 | 72 500           |
| 2009 | 72 500           |
| 2010 | 72 500           |
| 2011 | <u>36 250</u>    |
|      | <u>\$391 250</u> |

## OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**10. CASH AND CASH EQUIVALENTS**

|              | 2005             | 2004             |
|--------------|------------------|------------------|
| Cash on hand | \$6 191          | \$95 410         |
| Term deposit | 325 000          | 200 000          |
|              | <u>\$331 191</u> | <u>\$295 410</u> |

**11. RELATED PARTY TRANSACTIONS**

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 either joint control or significant influence by it. The Office 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.

**12. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Office participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Office's contributions charged to the year-end statement amount to \$18 077 (2004: \$17 744). The liability of the Office towards these Government plans is restricted to its contributions as an employer.

**Provision for sick leave**

The Office reimburses days not used at March 31 every year in keeping with its regulation on the conditions of nomination, payment standards and pay scales. The charge for the fiscal year was \$19 560 (2004: \$16 972).

**13. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE****MANAGEMENT'S REPORT**

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The financial statements of the Office Québec-Amériques pour la jeunesse were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies and methods that comply with the accounting principles that are generally accepted in Canada.

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 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.

The Auditor General of Québec has audited the Office's financial statements in keeping with the auditing standards that are generally accepted in Canada. His report states the nature and scope of this audit and his opinion. The Auditor General may, without restriction, meet with the board of directors to discuss any matter related to the audit.

Lucie Latulippe  
President and Chief Executive Officer

Québec, May 27, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheets of the Office Québec-Amériques pour la jeunesse as at March 31, 2005, the statement of revenue, expenditure and surplus and the cash flow statement for the year then ended. These financial statements are the responsibility of the Office's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 2005 and the results of the insurance funds' operations and cash flows for the year then ended, in accordance with 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, given the retroactive application of the change in accounting policies disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, May 27, 2005

**RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**  
(R.S.Q., c. R-5)

**PROGRAM COST AND FINANCING**  
for the year ended March 31  
(in thousands of dollars)

|                                                                                             | <u>2005</u>             | <u>2004</u>             |
|---------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| <b>COST OF PROGRAMS (Note 3)</b>                                                            |                         |                         |
| Medical services (Note 16)                                                                  | 3 394 144               | 3 170 297               |
| Prescription drugs and pharmaceutical<br>services (Notes 4 and 16)                          | 2 273 277               | 2 121 542               |
| Hospital services (Note 5)                                                                  | 131 217                 | 119 213                 |
| Technical aids                                                                              | 113 973                 | 107 546                 |
| Dental services (Note 16)                                                                   | 97 239                  | 87 369                  |
| Home care services                                                                          | 42 840                  | 41 810                  |
| Optometry services (Note 16)                                                                | 34 349                  | 31 741                  |
| Other (Note 6)                                                                              | 11 705                  | 22 584                  |
|                                                                                             | <u>6 098 744</u>        | <u>5 702 102</u>        |
| Amounts recovered from liable third parties and<br>from foreign nationals for hospital care | 4 620                   | 5 850                   |
|                                                                                             | <u>6 094 124</u>        | <u>5 696 252</u>        |
| <b>Administrative expenses (Note 7)</b>                                                     | <u>127 596</u>          | <u>136 083</u>          |
|                                                                                             | <u><u>6 221 720</u></u> | <u><u>5 832 335</u></u> |
| <br><b>SOURCES OF FINANCING</b>                                                             |                         |                         |
| Health Services Fund                                                                        | 3 534 903               | 3 307 810               |
| Prescription Drug Insurance Fund                                                            | 2 300 555               | 2 144 604               |
| Gouvernement du Québec                                                                      | 270 648                 | 267 185                 |
| Commission de la santé et de la sécurité du travail                                         | 74 030                  | 78 427                  |
| Reciprocal agreements with other provinces (Note 5)                                         | 33 982                  | 26 957                  |
| Other sources                                                                               | 7 602                   | 7 352                   |
|                                                                                             | <u><u>6 221 720</u></u> | <u><u>5 832 335</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  
(in thousands of dollars)

|                                                              | <u>2005</u>    | <u>2004</u>    |
|--------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                |                |                |
| <b>Current assets</b> (Note 8)                               |                |                |
| Cash                                                         | 3 576          | 21 814         |
| Contributions receivable                                     |                |                |
| Health Services Fund                                         | 214 152        | 37 023         |
| Prescription Drug Insurance Fund                             | 104 077        | 213 576        |
| Fees to recovered (Note 9)                                   | 106 833        | 106 797        |
| Other receivables                                            | <u>11 921</u>  | <u>9 619</u>   |
|                                                              | 440 559        | 388 829        |
| <b>Fixed assets</b> (Note 10)                                | 23 229         | 20 841         |
| <b>Intangible assets</b> (Note 11)                           | <u>17 672</u>  | <u>14 706</u>  |
|                                                              | <u>481 460</u> | <u>424 376</u> |
| <b>LIABILITIES</b>                                           |                |                |
| <b>Current liabilities</b> (Note 8)                          |                |                |
| Outstanding bank papers                                      | 110 847        | 109 221        |
| Services payable                                             | 318 442        | 264 709        |
| Other accounts payable and accruals                          | 15 601         | 13 554         |
| Portion of long-term debt maturing within one year (Note 12) | <u>500</u>     | <u>922</u>     |
|                                                              | 445 390        | 388 406        |
| <b>Provision for sick leave and vacation time</b> (Note 14)  | 29 270         | 28 670         |
| <b>Long-term debt</b> (Note 12)                              | <u>6 800</u>   | <u>7 300</u>   |
|                                                              | <u>481 460</u> | <u>424 376</u> |
| <b>COMMITMENTS</b> (Note 15)                                 |                |                |
| <b>CONTINGENCIES</b> (Note 16)                               |                |                |

The notes are an integral part of these financial statements.

On behalf of the Régie,  
Pierre Roy, President and Chief Executive Officer  
Jacques L'Espérance, Member of the Board of Directors

## RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(in thousands of dollars)

#### 1. CONSTITUTION, PURPOSE AND FINANCING

A legal person within the meaning of the Civil Code, the Régie was established by the Act respecting the Régie de l'assurance maladie du Québec (R.S.Q., c. R-5) for the purpose of administering the health insurance plan and any other program entrusted to it by law or by the Government.

The Régie also administers the basic prescription drug insurance plan, as well as the health assistance program of the Ministère de l'Emploi et de la Solidarité sociale and parts of the programs of the Ministère de la Santé et des Services sociaux, including:

- the remuneration of resident physicians;
- the payment of hospital services rendered outside Québec;
- the tax exemption for home care services;
- the collection of amounts recoverable from liable third parties, residents of other provinces and foreign nationals for hospital care.

The Régie 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 Régie.

The health insurance program and health assistance program are 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;
- employment-assistance recipients
- participants: other than those listed above, who do not have access to a group insurance plan or fringe benefits.

Finally, the Gouvernement du Québec finances the parts of programs entrusted to it by the Ministère de la Santé et des Services sociaux.

Under section 4 of its incorporating legislation, the Régie is an agent of the State and, as such, is not subject to Québec and Canadian income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

The cash flow statement is not shown as it would not provide any useful supplementary information regarding the Régie's cash flow during the year. However, the most relevant information is provided in the notes to the financial statements.

##### Fixed assets

Fixed assets are recorded at acquisition cost.

The straight-line amortization method is used, taking into account the residual value of these fixed assets, where applicable. Their service life has been established as follows:

|                                                            |              |
|------------------------------------------------------------|--------------|
| Head office building                                       | 40 years     |
| Building renovations                                       | 10 years     |
| Office furniture and equipment and<br>automotive equipment | 5 years      |
| Computer and office automation equipment                   | 3 to 5 years |

**RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

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**2. ACCOUNTING POLICIES (cont'd)****Intangible assets**

Intangible assets are recorded at acquisition cost.

The development of computer systems includes the cost of labour and professional services plus the related computer and office automation equipment.

The straight-line amortization method is used, taking into account the residual value of intangible assets, where applicable. Their service life has been established as follows:

|                      |              |
|----------------------|--------------|
| Computer development | 5 to 7 years |
| Software             | 3 years      |

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Consequently, it applies the accounting procedure for defined-benefit plans to interenterprise government defined-benefit plans.

**3. PROGRAM COSTS**

The cost of goods and services, by program, breaks down as follows:

|                                                        | 2005             | 2004             |
|--------------------------------------------------------|------------------|------------------|
| Health insurance plan                                  | 3 462 167        | 3 236 007        |
| Public basic prescription drug insurance plan (Note 4) | 2 267 851        | 2 114 064        |
| Health assistance                                      | 68 054           | 59 619           |
| Other                                                  | 296 052          | 286 562          |
|                                                        | <u>6 094 124</u> | <u>5 696 252</u> |

**4. PRESCRIPTION DRUGS AND PHARMACEUTICAL SERVICES**

|                                         | 2005             | 2004             |
|-----------------------------------------|------------------|------------------|
| Public prescription drug insurance plan |                  |                  |
| Persons aged 65 and over                | 1 279 956        | 1 179 684        |
| Employment-assistance recipients        | 515 547          | 485 799          |
| Participants                            | 472 348          | 448 581          |
|                                         | <u>2 267 851</u> | <u>2 114 064</u> |
| Persons eligible for special programs   | <u>5 426</u>     | <u>7 478</u>     |
|                                         | <u>2 273 277</u> | <u>2 121 542</u> |



## RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**5. HOSPITAL SERVICES**

|                                                                      | 2005           | 2004           |
|----------------------------------------------------------------------|----------------|----------------|
| Hospital services provided to Québec residents outside the province  | 97 235         | 92 256         |
| Hospital services provided in Québec to residents of other provinces | 33 982         | 26 957         |
|                                                                      | <u>131 217</u> | <u>119 213</u> |

**6. OTHER**

|                                                           | 2005          | 2004          |
|-----------------------------------------------------------|---------------|---------------|
| Research grants                                           | 9 081         | 8 813         |
| Assistance to persons infected with the hepatitis C virus | 2 624         | 13 771        |
|                                                           | <u>11 705</u> | <u>22 584</u> |

**7. ADMINISTRATIVE EXPENSES**

|                                                      | 2005           | 2004           |
|------------------------------------------------------|----------------|----------------|
| Salaries and fringe benefits                         | 80 814         | 80 630         |
| Depreciation of fixed assets                         | 5 580          | 4 316          |
| Amortization of intangible assets                    | 6 158          | 8 690          |
| Office space, equipment and furniture                | 13 835         | 11 727         |
| Information, telephone and messenger services        | 7 454          | 6 743          |
| Interactive communications network                   | 4 626          | 3 800          |
| Professional and other services                      | 6 684          | 3 436          |
| Materials and supplies                               | 1 870          | 2 274          |
| Interest on long-term debt                           | 575            | 667            |
|                                                      | <u>127 596</u> | <u>122 283</u> |
| Preliminary Carte Santé du Québec project activities |                | 13 800         |
|                                                      | <u>127 596</u> | <u>136 083</u> |

Part of the administrative expenses of \$32.7 M (2004: \$30.5 M) is assumed by the Prescription Drug Insurance Fund.

**8. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

**RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**9. COSTS TO BE RECOVERED**

|                                                     | 2005           | 2004           |
|-----------------------------------------------------|----------------|----------------|
| Gouvernement du Québec                              | 74 037         | 79 339         |
| Commission de la santé et de la sécurité du travail | 21 186         | 20 322         |
| Hospital services owing from other provinces        | 11 610         | 7 136          |
|                                                     | <u>106 833</u> | <u>106 797</u> |

**10. FIXED ASSETS**

|                                                            | 2005          |                             |               | 2004          |
|------------------------------------------------------------|---------------|-----------------------------|---------------|---------------|
|                                                            | Cost          | Accumulated<br>depreciation | Net           | Net           |
| Land                                                       | 1 000         |                             | 1 000         | 1 000         |
| Head office building                                       | 17 537        | 9 837                       | 7 700         | 8 001         |
| Building renovations                                       | 7 990         | 699                         | 7 291         | 2 848         |
| Office furniture and equipment and<br>automotive equipment | 4 302         | 2 418                       | 1 884         | 1 633         |
| Computer and office automation equipment                   | 13 917        | 8 563                       | 5 354         | 7 359         |
|                                                            | <u>44 746</u> | <u>21 517</u>               | <u>23 229</u> | <u>20 841</u> |

Acquisitions for the fiscal year necessitated expenditures of \$8 million (2004: \$9.6 million).

**11. INTANGIBLE ASSETS**

|                              | 2005          |                             |               | 2004          |
|------------------------------|---------------|-----------------------------|---------------|---------------|
|                              | Cost          | Accumulated<br>depreciation | Net           | Net           |
| Computer systems development | 31 338        | 15 341                      | 15 997        | 14 011        |
| Software                     | 3 129         | 1 454                       | 1 675         | 695           |
|                              | <u>34 467</u> | <u>16 795</u>               | <u>17 672</u> | <u>14 706</u> |

Acquisitions for the fiscal year necessitated expenditures of \$9.1 million (2004: \$5.9 million).

**12. LONG-TERM DEBT**

|                                                                                                                          | 2005         | 2004         |
|--------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Borrowing on note from the Financing Fund<br>of the Gouvernement du Québec at a fixed rate<br>of 5.91%, maturing in 2006 | 7 300        | 8 222        |
| Portion maturing within one year                                                                                         | 500          | 922          |
|                                                                                                                          | <u>6 800</u> | <u>7 300</u> |

## RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

#### 12. LONG-TERM DEBT (suite)

##### Cash flows

|                | 2005 | 2004  |
|----------------|------|-------|
| Reimbursements | 922  | 1 308 |
| Interest paid  | 451  | 529   |

Assuming that the borrowing on note is refinanced at its term, payments of principal for the next five fiscal years are as follows:

|      |     |
|------|-----|
| 2006 | 500 |
| 2007 | 500 |
| 2008 | 500 |
| 2008 | 500 |
| 2010 | 500 |

The fair value of the long-term debt, obtained by discounting future cash flows, at the market interest rate for similar borrowings, corresponds to its book value.

#### 13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, 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 either joint control or significant influence by it. The Régie 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. FUTURE FRINGE BENEFITS

##### Pension plans

Régie employees and salaried health care professionals participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are interemployer defined benefit plans and include guaranteed payments on retirement and death.

The Régie's contributions charged to the year-end statement amount to \$2.9 million (2004: \$2.8 million) for its employees and are included in administrative expenses. Contributions for salaried health care professionals amount to \$3.5 million (2004: \$3.1 million) and are included in the cost of programs under the items "medical services," "dental services" and "optometry services." The liability of the Régie towards these Government plans is restricted to its contributions for current service as an employer.

**RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

**14. FUTURE FRINGE BENEFITS (cont'd)****Sick leave and vacation time**

|                                                          | 2005          | 2004          |
|----------------------------------------------------------|---------------|---------------|
| Opening balance                                          | 28 670        | 26 458        |
| Net increase due to employees<br>departures and arrivals | (43)          | 1 000         |
| Expenditures                                             | 8 482         | 8 512         |
| Utilization                                              | (7 839)       | (7 300)       |
| Closing balance                                          | <u>29 270</u> | <u>28 670</u> |

**15. COMMITMENTS**

As at March 31, 2005, the minimum contractual commitments related to the acquisition of goods and services under procurement contracts and to the rental of office space are as follows:

|      |               |
|------|---------------|
| 2006 | 12 650        |
| 2007 | 6 011         |
| 2008 | 2 007         |
| 2009 | 1 218         |
| 2010 | <u>244</u>    |
|      | <u>22 130</u> |

**16. CONTINGENCIES****Medical, dental and optometry services and prescription drugs and pharmaceutical services**

The following agreements with associations representing health professionals have expired. No provision for liabilities was made for rate changes that might be made when they are renewed.

|                                                                                   | <u>Expiry date</u> |
|-----------------------------------------------------------------------------------|--------------------|
| Association des chirurgiens dentistes du Québec                                   | June 30, 2003      |
| Quebec Association of Optometrists                                                | June 30, 2003      |
| Association québécoise des pharmaciens propriétaires                              | June 30, 2003      |
| Fédération des médecins résidents du Québec                                       | June 30, 2003      |
| Fédération des médecins omnipraticiens du Québec                                  | March 31, 2004     |
| Fédération des médecins spécialistes du Québec                                    | March 31, 2004     |
| Association des spécialistes en chirurgie buccale<br>et maxillo-faciale du Québec | March 31, 2004     |

The annual agreements with the Fédération des médecins omnipraticiens du Québec, Fédération des médecins spécialistes du Québec and Association des spécialistes en chirurgie buccale et maxillo-faciale du Québec generally provided for an overall budget to be paid to their members for their services. The agreements specify that should this budget not be used, the amounts made available will be allocated for the purposes decided on 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.

**RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**16. CONTINGENCIES (cont'd)****Medical, dental and optometry services and prescription drugs and pharmaceutical services (cont'd)**

Since the respective agreements had not yet been signed for the period April 1, 2004 to March 31, 2005, the budgets were not determined and the Régie cannot evaluate whether the budgets will be used or not.

**17. COMPARATIVE FIGURES**

Certain figures for 2004 were reclassified to comply with the presentation adopted in 2005.

## MANAGEMENT RESPONSIBILITY REGARDING FINANCIAL INFORMATION

The financial statements of the Régie de l'assurance maladie du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility includes choosing appropriate accounting policies that respect the accounting principles that are generally accepted in Canada. 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. This enables it to provide reasonable assurance that assets are safeguarded and that the accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Régie's financial position and operations.

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 Board of Directors is assisted in carrying out its mandate by the Audit Committee.

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 the auditing standards that are generally accepted in Canada. 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.

Pierre Roy  
President and Chief Executive Officer

Daniel Cloutier, CA  
Director, Budget and  
Financial Resources

Québec, May 30, 2005

**RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Régie de l'assurance maladie du Québec as at March 31, 2005 and the statements of program cost and financing for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 30, 2005

**RÉGIE DE L'ÉNERGIE**  
(R.S.Q., c. R-6.01)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                               | <u>2005</u>             | <u>2004</u>               |
|-----------------------------------------------|-------------------------|---------------------------|
| <b>REVENUE</b>                                |                         |                           |
| Royalties - salaries and operations           | \$7 578 904             | \$8 399 220               |
| Royalties – fixed assets (Note 7)             | <u>200 000</u>          | <u>30 000</u>             |
|                                               | 7 778 904               | 8 429 220                 |
| Deferred contribution – fixed assets (Note 7) | (107 025)               | 122 158                   |
| Interest income                               | 42 926                  | 52 117                    |
| Fees and other                                | <u>36 880</u>           | <u>6 472</u>              |
|                                               | <u>7 751 685</u>        | <u>8 609 967</u>          |
| <b>EXPENDITURE</b>                            |                         |                           |
| Salaries and fringe benefits                  | 6 043 417               | 6 078 139                 |
| Professional and administrative services      | 218 596                 | 246 452                   |
| Rent to Société immobilière du Québec         | 978 252                 | 976 536                   |
| Other operating expenses                      | 696 120                 | 680 204                   |
| Depreciation of fixed assets                  | 92 975                  | 152 158                   |
| Fixed assets held under capital leases        |                         |                           |
| Depreciation                                  | 72 121                  | 72 121                    |
| Write-off of assets                           |                         | 101 653                   |
| Interest on long-term debt                    | 60 577                  | 67 572                    |
| Reimbursement of expenses - hearing           | <u>36 000</u>           | <u>(1 913)</u>            |
|                                               | <u>8 198 058</u>        | <u>8 372 922</u>          |
| <b>EXCESS (EXPENDITURE OVER REVENUE)</b>      |                         |                           |
| <b>REVENUE OVER EXPENDITURE</b>               | (446 373)               | 237 045                   |
| <b>SURPLUS, BEGINNING OF YEAR</b>             | <u>1 216 019</u>        | <u>978 974</u>            |
| <b>SURPLUS, END OF YEAR</b>                   | <u><u>\$769 646</u></u> | <u><u>\$1 216 019</u></u> |

The notes are an integral part of these financial statements.

**RÉGIE DE L'ÉNERGIE**BALANCE SHEET  
as at March 31, 2005

|                                                                           | <u>2005</u>        | <u>2004</u>        |
|---------------------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                             |                    |                    |
| <b>Current assets</b>                                                     |                    |                    |
| Cash on hand                                                              | \$2 952 387        | \$757 764          |
| Banker's acceptance, rate of 2.17%,<br>matured in April 2004              |                    | 2 395 440          |
| Accounts receivable                                                       | 8 706              | 8 443              |
| Prepaid expenses                                                          | 41 356             | 45 421             |
|                                                                           | <u>3 002 449</u>   | <u>3 207 068</u>   |
| <b>Fixed assets (Note 3)</b>                                              | <u>745 216</u>     | <u>741 350</u>     |
|                                                                           | <u>\$3 747 665</u> | <u>\$3 948 418</u> |
| <b>LIABILITIES</b>                                                        |                    |                    |
| <b>Current liabilities</b>                                                |                    |                    |
| Accounts payable and accruals (Note 4)                                    | \$1 712 589        | \$1 547 695        |
| Short-term provision for sick leave (Note 5)                              | 155 363            | 51 235             |
| Current portion of long-term debt (Note 6)                                | 86 611             | 83 325             |
|                                                                           | <u>1 954 563</u>   | <u>1 682 255</u>   |
| <b>Long-term provision for sick leave (Note 5)</b>                        | 102 950            | 150 052            |
| <b>Long-term debt owing to Société immobilière<br/>du Québec (Note 6)</b> | 593 495            | 680 106            |
| <b>Deferred contribution – fixed assets (Note 7)</b>                      | <u>327 011</u>     | <u>219 986</u>     |
|                                                                           | <u>2 978 019</u>   | <u>2 732 399</u>   |
| <b>SURPLUS</b>                                                            | <u>769 646</u>     | <u>1 216 019</u>   |
|                                                                           | <u>\$3 747 665</u> | <u>\$3 948 418</u> |

The notes are an integral part of these financial statements.

On behalf of the Régie,  
Jean-Paul Théorêt



**RÉGIE DE L'ÉNERGIE****CASH FLOWS**

for the year ended March 31, 2005

|                                                        | <u>2005</u>        | <u>2004</u>        |
|--------------------------------------------------------|--------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                            |                    |                    |
| Receipts - royalties - salaries and operations         | \$7 575 653        | \$8 401 954        |
| Receipts - royalties and other revenue                 | 36 567             | 8 689              |
| Disbursements - salaries and fringe benefits           | (5 918 530)        | (5 915 130)        |
| Disbursements - operations                             | (1 827 870)        | (1 822 010)        |
| Interest received                                      | 46 077             | 49 044             |
| Interest paid                                          | <u>(60 577)</u>    | <u>(67 572)</u>    |
| Cash flows (used for) provided by operating activities | <u>(148 680)</u>   | <u>654 975</u>     |
| <b>INVESTMENT ACTIVITIES</b>                           |                    |                    |
| Acquisition of fixed assets                            | (168 962)          | (15 370)           |
| Proceeds from disposal of fixed assets                 | <u>150</u>         | <u>500</u>         |
| Cash flows used for investment activities              | <u>(168 812)</u>   | <u>(14 870)</u>    |
| <b>FINANCING ACTIVITIES</b>                            |                    |                    |
| Reimbursements of long-term debt                       | (83 325)           | (88 778)           |
| Receipts – royalties from fixed assets                 | <u>200 000</u>     | <u>30 000</u>      |
| Cash flows provided by (used for) financing activities | <u>116 675</u>     | <u>(58 778)</u>    |
| <b>NET (DECREASE) INCREASE</b>                         | (200 817)          | 581 327            |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>    | <u>3 153 204</u>   | <u>2 571 877</u>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>          | <u>\$2 952 387</u> | <u>\$3 153 204</u> |

The notes are an integral part of these financial statements.

**RÉGIE DE L'ÉNERGIE**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

The 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 and examination, superintending and investigative powers. Its authority and responsibilities cover, to varying degrees, all energy markets in Québec, i.e. electricity, natural gas, petroleum products and steam, and include activities related to supply, transport, distribution and storage.

The Régie must reconcile the public interest, consumer protection and fair treatment of electricity distributors and distributors.

Under the Canadian Income Tax Act and the Québec Taxation Act, the Régie is not subject to income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are recorded at cost and depreciated on a straight-line basis according to their estimated service lives, namely:

|                                               |               |
|-----------------------------------------------|---------------|
| Computer system and data processing equipment | 3 years       |
| Furniture and equipment                       | 5 years       |
| Leasehold improvements                        | 5 to 15 years |

**Revenue recording**

Contributions are recorded according to the deferral method. Contributions for budgeted fixed asset expenditures are deferred and recognized as revenue over the same term as the depreciation of the fixed assets they are used to finance. Deferred contributions corresponding to cancelled fixed asset expenditures are recognized as revenue when they are cancelled by the Régie.

Contributions for budgeted operating expenses and salaries approved by the Government are recorded as revenue in the year for which they are approved.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Cash and cash equivalents**

The Régie's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are convertible in the short term to a known amount of cash whose value is unlikely to change significantly.

**RÉGIE DE L'ÉNERGIE**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. FIXED ASSETS**

|                                               | 2005               |                          | 2004             |
|-----------------------------------------------|--------------------|--------------------------|------------------|
|                                               | Cost               | Accumulated depreciation | Net              |
| Computer system and data processing equipment | \$762 631          | \$702 602                | \$60 029         |
| Furniture and equipment                       | 303 054            | 288 123                  | 14 931           |
| Leasehold improvements                        | 215 499            | 52 385                   | 163 114          |
|                                               | 1 281 184          | 1 043 110                | 238 074          |
| Fixed assets held under capital leases        |                    |                          |                  |
| Leasehold improvements                        | 1 029 352          | 522 210                  | 507 142          |
|                                               | <u>\$2 310 536</u> | <u>\$1 565 320</u>       | <u>\$745 216</u> |
|                                               |                    |                          | <u>\$741 350</u> |

**4. ACCOUNTS PAYABLE AND ACCRUALS**

|                               | 2005               | 2004               |
|-------------------------------|--------------------|--------------------|
| Accounts payable and accruals | \$427 565          | \$330 532          |
| Salaries and fringe benefits  | 815 104            | 781 770            |
| Provision for vacation time   | 469 920            | 435 393            |
|                               | <u>\$1 712 589</u> | <u>\$1 547 695</u> |

**5. FUTURE FRINGE BENEFITS****Provision for sick leave**

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Opening balance               | \$201 287        | \$209 778        |
| Expenditure for the year      | 196 537          | 134 658          |
| Benefits paid during the year | (139 511)        | (143 149)        |
| Closing balance               | 258 313          | 201 287          |
| Short-term provision          | <u>(155 363)</u> | <u>(51 235)</u>  |
| Long-term provision           | <u>\$102 950</u> | <u>\$150 052</u> |

**Pension Plans**

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan for Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments upon retirement and death.

The Régie's contributions charged to the year-end expenditure, under the entry "Salaries and fringe benefits" amount to \$205 206 (2004: \$181 823). The Régie's liability towards this Government plan is restricted to its contributions as an employer.

**RÉGIE DE L'ÉNERGIE**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**6. LONG-TERM DEBT OWING TO SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**

|                                                                                                                                                      | <u>2005</u>      | <u>2004</u>      |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Commitments under capital leases, from 7.1% to 9.3%,<br>maturing from November 2005 to October 2012,<br>repayable in monthly instalments of \$11 992 | \$680 106        | \$763 431        |
| Instalments due within one year                                                                                                                      | <u>(86 611)</u>  | <u>(83 325)</u>  |
|                                                                                                                                                      | <u>\$593 495</u> | <u>\$680 106</u> |

The minimum payments required on commitments under capital leases are as follows:

|                                                    |                  |
|----------------------------------------------------|------------------|
| 2006                                               | \$140 029        |
| 2007                                               | 132 285          |
| 2008                                               | 132 285          |
| 2009                                               | 132 285          |
| 2010                                               | 132 285          |
| 2011 to 2013                                       | <u>219 676</u>   |
|                                                    | 888 845          |
| Interest included in the minimum payments required | <u>(208 739)</u> |
|                                                    | <u>\$680 106</u> |

**7. DEFERRED CONTRIBUTION - IMMOBILISATIONS CORPORELLES**

The item "Deferred contribution – fixed assets" represents contributions received in the form of royalties to finance the fixed assets expenditures included in the budget estimates approved by the Government. Discrepancies in the balance of these contributions for the fiscal year are as follows:

|                                                    | <u>2005</u>      | <u>2004</u>      |
|----------------------------------------------------|------------------|------------------|
| Opening balance                                    | <u>\$219 986</u> | <u>\$342 144</u> |
| Royalties – fixed assets                           | 200 000          | 30 000           |
| Amortization of deferred contribution for the year | <u>(92 975)</u>  | <u>(152 158)</u> |
| Deferred contribution – fixed assets               | <u>107 025</u>   | <u>(122 158)</u> |
| Closing balance                                    | <u>\$327 011</u> | <u>\$219 986</u> |

Fixed assets acquired under capital lease contracts are not included in fixed asset expenditures and, therefore, are not included in the item "Deferred contribution – fixed assets".

**RÉGIE DE L'ÉNERGIE**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**8. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, 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 either joint control or significant influence by it. The Régie 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.

**9. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

At March 31, 2005, the fair value of the long-term debt of \$680 106 was \$767 316, given the discount rate of cash flows at the market rate by securities with similar maturity dates and interest rates.

**RÉGIE DE L'ÉNERGIE**

ADDITIONAL INFORMATION  
for the year ended March 31, 2005

**SEGMENTED INFORMATION**

|                                                                     | 2005         |             |             |           |             |
|---------------------------------------------------------------------|--------------|-------------|-------------|-----------|-------------|
|                                                                     | Electricity  |             | Natural     | Petroleum |             |
|                                                                     | distribution | transport   | gas         | products  | Total       |
| REVENUE                                                             |              |             |             |           |             |
| Royalties                                                           |              |             |             |           |             |
| Salaries and operations                                             | \$3 491 235  | \$2 511 820 | \$1 392 963 | \$182 886 | \$7 578 904 |
| Fixed assets                                                        | 86 400       | 57 600      | 36 000      | 20 000    | 200 000     |
|                                                                     | 3 577 635    | 2 569 420   | 1 428 963   | 202 886   | 7 778 904   |
| Deferred contribution - fixed assets                                | (33 404)     | (39 005)    | (17 405)    | (17 211)  | (107 025)   |
| Interest income                                                     | 24 279       | 8 753       | 8 478       | 1 416     | 42 926      |
| Fees and other                                                      | 23 985       | 5 954       | 5 977       | 964       | 36 880      |
|                                                                     | 3 592 495    | 2 545 122   | 1 426 013   | 188 055   | 7 751 685   |
| EXPENDITURE                                                         |              |             |             |           |             |
| Salaries and fringe benefits                                        | 3 406 888    | 1 236 848   | 1 198 929   | 200 752   | 6 043 417   |
| Professional services                                               | 139 767      | 32 888      | 38 129      | 7 812     | 218 596     |
| Rent to Société immobilière<br>du Québec                            | 553 554      | 199 558     | 192 919     | 32 221    | 978 252     |
| Other operating expenses                                            | 405 967      | 141 284     | 124 467     | 24 402    | 696 120     |
| Depreciation of fixed assets                                        | 52 996       | 18 595      | 18 595      | 2 789     | 92 975      |
| Amortization of fixed assets held<br>under capital lease contracts  | 40 792       | 14 705      | 14 244      | 2 380     | 72 121      |
| Interest on the long term                                           | 34 262       | 12 352      | 11 964      | 1 999     | 60 577      |
| Reimbursement of expenses -<br>hearing                              | 36 000       |             |             |           | 36 000      |
|                                                                     | 4 670 226    | 1 656 230   | 1 599 247   | 272 355   | 8 198 058   |
| EXCESS REVENUE OVER<br>EXPENDITURE<br>(EXPENDITURE OVER<br>REVENUE) | (1 077 731)  | 888 892     | (173 234)   | (84 300)  | (446 373)   |
| SURPLUS, BEGINNING<br>OF YEAR                                       | 276 495      |             | 176 927     | 762 597   | 1 216 019   |
| (DEFICIT) SURPLUS<br>END OF YEAR                                    | \$(801 236)  | \$888 892   | \$3 693     | \$678 297 | \$769 646   |

**Note**

As of 2004-2005, sector-based information for the energy form "Electricity" was divided between distribution and transmission following the coming into effect of new provisions stipulated in the Regulation on the annual royalty payable to the Régie de l'énergie (O.C. 736-2004 of July 28, 2004).

**RÉGIE DE L'ÉNERGIE**

ADDITIONAL INFORMATION  
for the year ended March 31, 2005

**SEGMENTED INFORMATION**

|                                                                       | 2004             |                  |                    |                    |
|-----------------------------------------------------------------------|------------------|------------------|--------------------|--------------------|
|                                                                       | Electricity      | Natural gas      | Petroleum products | Total              |
| <b>REVENUE</b>                                                        |                  |                  |                    |                    |
| Royalties                                                             |                  |                  |                    |                    |
| Salaries and operations                                               | \$6 727 065      | \$845 830        | \$826 325          | \$8 399 220        |
| Fixed assets                                                          | 21 990           | 5 075            | 2 935              | 30 000             |
|                                                                       | <u>6 749 055</u> | <u>850 905</u>   | <u>829 260</u>     | <u>8 429 220</u>   |
| Deferred contribution – fixed assets                                  | 94 898           | 22 937           | 4 323              | 122 158            |
| Interest income                                                       | 40 036           | 9 595            | 2 486              | 52 117             |
| Fees and other                                                        | 5 439            | 1 026            | 7                  | 6 472              |
|                                                                       | <u>6 889 428</u> | <u>884 463</u>   | <u>836 076</u>     | <u>8 609 967</u>   |
| <b>EXPENDITURE</b>                                                    |                  |                  |                    |                    |
| Salaries and fringe benefits                                          | 4 684 688        | 1 099 828        | 293 623            | 6 078 139          |
| Professional services                                                 | 167 713          | 59 971           | 18 768             | 246 452            |
| Rent to Société immobilière du Québec                                 | 750 277          | 179 699          | 46 560             | 976 536            |
| Other operating expenses                                              | 523 209          | 114 569          | 42 426             | 680 204            |
| Depreciation of fixed assets                                          | 116 888          | 28 012           | 7 258              | 152 158            |
| Fixed assets held under capital leases                                |                  |                  |                    |                    |
| Depreciation                                                          | 55 404           | 13 277           | 3 440              | 72 121             |
| Write-off of assets                                                   | 68 994           | 16 532           | 16 127             | 101 653            |
| Interest on the long-term debt                                        | 51 774           | 12 514           | 3 284              | 67 572             |
| Reimbursement of expenses - hearing                                   | (22 158)         | (5 356)          | 25 601             | (1 913)            |
|                                                                       | <u>6 396 789</u> | <u>1 519 046</u> | <u>457 087</u>     | <u>8 372 922</u>   |
| <b>EXCESS REVENUE OVER EXPENDITURE<br/>(EXPENDITURE OVER REVENUE)</b> | 492 639          | (634 583)        | 378 989            | 237 045            |
| <b>SURPLUS (DEFICIT), BEGINNING OF<br/>YEAR</b>                       | (216 144)        | 811 510          | 383 608            | 978 974            |
| <b>SURPLUS, END OF YEAR</b>                                           | <u>\$276 495</u> | <u>\$176 927</u> | <u>\$762 597</u>   | <u>\$1 216 019</u> |

**RÉGIE DE L'ÉNERGIE****MANAGEMENT'S REPORT**

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The financial statements of the Régie de l'énergie were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada.

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 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 the auditing standards that are generally accepted in Canada. 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 element concerning his audit.

Jean-Paul Théorêt  
President

Montréal, June 17, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Régie de l'énergie as at March 31, 2005, the statement of revenue and expenditure and surplus and the statement of cash flow and additional information for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements and the additional information are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the overall presentation of the financial statements and additional information.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2005 and the results of its operations and cash flow for the year then ended, in accordance with 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 General of Québec

Québec, June 17, 2005



**RÉGIE DES INSTALLATIONS OLYMPIQUES**

(R.S.Q., c. R-7)

**REVENUE FUND****EARNINGS**

for the year ended October 31, 2004

(in thousands of dollars)

|                                                                     | 2004   | 2003    |
|---------------------------------------------------------------------|--------|---------|
| <b>REVENUE</b>                                                      |        |         |
| Gouvernement du Québec subsidy (Note 4)                             | 20 792 | 22 362  |
| Sports and tourist installations and special events                 |        |         |
| Entrance fees                                                       | 4 452  | 3 845   |
| Rent                                                                | 1 609  | 1 563   |
| Advertising                                                         | 390    | 400     |
| Parking                                                             | 2 799  | 3 072   |
| Souvenirs                                                           | 666    | 460     |
| Concession fees                                                     | 1 177  | 1 088   |
| Rental of commercial and office spaces                              | 1 563  | 1 528   |
| Recovery of cost of energy supplied to third parties                | 4 039  | 3 970   |
| Work and services billed to third parties                           | 931    | 984     |
| Other                                                               | 290    | 564     |
|                                                                     | 38 708 | 39 836  |
| <b>EXPENSES</b>                                                     |        |         |
| Salaries                                                            |        |         |
| Regular employees                                                   | 8 065  | 8 671   |
| Casual employees                                                    | 2 741  | 2 793   |
| Employee benefits                                                   | 1 865  | 1 674   |
| Pension fund contributions                                          | 348    | 336     |
| Employment termination costs                                        | 271    | 328     |
| Service contracts                                                   | 4 518  | 4 332   |
| Equipment rental and materials                                      | 1 417  | 1 744   |
| Products for resale                                                 | 341    | 231     |
| Energy                                                              |        |         |
| Supplied to third parties                                           | 3 165  | 3 145   |
| Other                                                               | 4 525  | 4 250   |
| Water and service tax and insurance                                 | 2 578  | 2 637   |
| Professional fees                                                   | 931    | 1 043   |
| Rights, commissions and fees                                        | 354    | 349     |
| Financial expenses                                                  |        |         |
| Interest on short-term debt                                         | 128    | 228     |
| Interest on long-term debt                                          | 802    | 779     |
| Stationery, printing, telecommunications                            | 324    | 483     |
| Advertising                                                         | 896    | 848     |
| Doubtful accounts                                                   | 177    | 195     |
| Other charges                                                       | 347    | 330     |
| Depreciation of fixed assets                                        | 3 614  | 3 189   |
| Depreciation of deferred subsidy                                    | (721)  | (179)   |
|                                                                     | 36 686 | 37 406  |
| <b>EXCESS PROCEEDS COMPARED TO CHARGES<br/>BEFORE OTHER ITEMS</b>   | 2 022  | 2 430   |
| Other items                                                         |        |         |
| Costs incurred as a result of the January 18, 1999 incident         | 358    | 271     |
| Reimbursement of the water and service tax for<br>past fiscal years |        | (4 517) |
|                                                                     | 358    | (4 246) |
| <b>EXCESS (INSUFFICIENT) PROCEEDS COMPARED<br/>TO CHARGES</b>       | 1 664  | 6 676   |

The notes are an integral part of the financial statements.

**RÉGIE DES INSTALLATIONS OLYMPIQUES**

REVENUE FUND  
 OPERATING SURPLUS  
 APPROPRIATED SURPLUS  
 for the year ended October 31, 2004  
 (in thousands of dollars)

|                                     | 2004                                                |                                                  |                          |              | 2003            |               |              |
|-------------------------------------|-----------------------------------------------------|--------------------------------------------------|--------------------------|--------------|-----------------|---------------|--------------|
|                                     | Appropriated                                        |                                                  |                          |              |                 |               |              |
|                                     | New<br>product<br>and<br>market<br>develop-<br>ment | Install-<br>ation<br>mainte-<br>nance<br>program | Project -<br>new<br>roof | Total        | Opera-<br>tions | Total         | Total        |
| <b>OPENING SURPLUS</b>              | 402                                                 | 100                                              |                          | 502          | 8 552           | 9 054         | 2 254        |
| Invested in fixed assets            | (24)                                                | 41                                               |                          | 17           |                 | 17            |              |
| Allocated to reserved<br>surpluses  | (378)                                               | (141)                                            | 3 818                    | 3 299        | (3 299)         |               |              |
| Transfer to operating<br>surpluses  |                                                     |                                                  | (404)                    | (404)        | 404             |               |              |
| Surplus proceeds over charges       |                                                     |                                                  |                          |              | 1 664           | 1 664         | 6 676        |
| Balance available for<br>investment |                                                     |                                                  |                          |              |                 |               |              |
|                                     |                                                     |                                                  | 3 414                    | 3 414        | 7 321           | 10 735        | 8 930        |
| Opening surplus                     | 206                                                 | 58                                               |                          | 264          |                 | 264           | 388          |
| Fixed assets                        |                                                     |                                                  |                          |              |                 |               |              |
| Acquired from surpluses             | 24                                                  | (41)                                             |                          | (17)         |                 | (17)          |              |
| Transfer to operating<br>surpluses  | (40)                                                | (11)                                             |                          | (51)         | 51              |               |              |
| Unamortized balance                 | 190                                                 | 6                                                |                          | 196          | 51              | 247           | 388          |
| <b>CLOSING SURPLUS</b>              | <u>190</u>                                          | <u>6</u>                                         | <u>3 414</u>             | <u>3 610</u> | <u>7 372</u>    | <u>10 982</u> | <u>9 318</u> |

The notes are an integral part of the financial statements.

**RÉGIE DES INSTALLATIONS OLYMPIQUES****REVENUE FUND****CASH FLOWS**

for the year ended October 31, 2004  
(in thousands of dollars)

|                                                  | <u>2004</u>         | <u>2003</u>         |
|--------------------------------------------------|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                      |                     |                     |
| Excess proceeds compared to charges              | 1 664               | 6 676               |
| Non-cash items                                   |                     |                     |
| Depreciation of fixed assets                     | 3 614               | 3 189               |
| Depreciation of deferred subsidy                 | (721)               | (179)               |
| Changes in other assets and liabilities (Note 5) | <u>14 775</u>       | <u>5 281</u>        |
| Net cash generated                               | <u>19 332</u>       | <u>14 967</u>       |
| <b>INVESTING ACTIVITIES</b>                      |                     |                     |
| Bank acceptances                                 | 505                 | (8 982)             |
| Fixed assets                                     | <u>(12 449)</u>     | <u>(7 252)</u>      |
| Net cash used                                    | <u>(11 944)</u>     | <u>(16 234)</u>     |
| <b>FINANCING ACTIVITIES</b>                      |                     |                     |
| Bank loan                                        |                     | (1 096)             |
| Long-term loan                                   |                     | 15 000              |
| Repayments of borrowings                         | <u>(7 750)</u>      | <u>(11 000)</u>     |
| Net cash generated (used)                        | <u>(7 750)</u>      | <u>2 904</u>        |
| <b>INCREASE (DECREASE) IN CASH</b>               | (362)               | 1 637               |
| <b>CASH, BEGINNING OF YEAR</b>                   | <u>1 644</u>        | <u>7</u>            |
| <b>CASH, END OF YEAR</b>                         | <u><u>1 282</u></u> | <u><u>1 644</u></u> |

The notes are an integral part of the financial statements.

**RÉGIE DES INSTALLATIONS OLYMPIQUES**

## REVENUE FUND

BALANCE SHEET  
as at October 31, 2004  
(in thousands of dollars)

|                                                                                                         | <u>2004</u>   | <u>2003</u>   |
|---------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>ASSETS</b>                                                                                           |               |               |
| Cash                                                                                                    | 1 282         | 1 644         |
| Bank acceptances, interest rate varying between 2.53% and 2.60%, maturing in November and December 2004 | 8 477         | 8 982         |
| Accounts receivable                                                                                     | 2 030         | 8 234         |
| Inventory                                                                                               | 944           | 1 087         |
| Prepaid expenses                                                                                        | 476           | 552           |
| Fixed assets (Note 6)                                                                                   | <u>37 281</u> | <u>28 446</u> |
|                                                                                                         | <u>50 490</u> | <u>48 945</u> |
| <b>LIABILITIES</b>                                                                                      |               |               |
| Accounts and accrued expenses                                                                           | 8 792         | 10 398        |
| Deferred grants (Note 4 and Note 8)                                                                     | 19 466        | 10 229        |
| Long-term debt (Note 9)                                                                                 | <u>11 250</u> | <u>19 000</u> |
|                                                                                                         | <u>39 508</u> | <u>39 627</u> |
| <b>SURPLUS</b>                                                                                          |               |               |
| Operating surplus                                                                                       | 3 610         | 766           |
| Appropriated surplus                                                                                    | <u>7 372</u>  | <u>8 552</u>  |
|                                                                                                         | <u>10 982</u> | <u>9 318</u>  |
|                                                                                                         | <u>50 490</u> | <u>48 945</u> |

The notes are an integral part of the financial statements.

On behalf of the Board,  
Gilles Lépine, Director  
Pasquale (Pat) Di Lillo, Director

**RÉGIE DES INSTALLATIONS OLYMPIQUES****CONSTRUCTION FUND****CASH FLOWS**

for the year ended October 31, 2004  
(in thousands of dollars)

|                                                          | <u>2004</u>      | <u>2003</u>       |
|----------------------------------------------------------|------------------|-------------------|
| <b>INVESTING ACTIVITIES</b>                              |                  |                   |
| Construction disbursements and net cash generated (used) | <u>(1 040)</u>   | <u>1 636</u>      |
| <b>FINANCING ACTIVITIES</b>                              |                  |                   |
| Contributions received from the Special Olympic Fund     | 66 396           | 58 736            |
| Net repayment of long-term loans                         | <u>(65 253)</u>  | <u>(60 500)</u>   |
| Net fund receipts (payments)                             | <u>1 143</u>     | <u>(1 764)</u>    |
| <b>INCREASE (DECREASE) IN CASH</b>                       | 103              | (128)             |
| <b>CASH (BANK OVERDRAFT), BEGINNING OF YEAR</b>          | <u>(8)</u>       | <u>120</u>        |
| <b>CASH (BANK OVERDRAFT), END OF YEAR</b>                | <u><u>95</u></u> | <u><u>(8)</u></u> |

The notes are an integral part of the financial statements.

**RÉGIE DES INSTALLATIONS OLYMPIQUES****CONSTRUCTION FUND**

**BALANCE SHEET**  
as at October 31, 2004  
(in thousands of dollars)

|                                                              | <u>2004</u>        | <u>2003</u>        |
|--------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                |                    |                    |
| Construction cost of the installations (Note 10)             | 1 476 175          | 1 475 091          |
| Expenses to be assumed by the Special Olympic Fund (Note 11) | 117 508            | 121 007            |
| Contributions received (Note 12)                             | <u>(1 468 564)</u> | <u>(1 402 168)</u> |
|                                                              | 125 119            | 193 930            |
| Other assets                                                 |                    |                    |
| Cash                                                         | <u>95</u>          |                    |
|                                                              | <u>125 214</u>     | <u>193 930</u>     |
| <b>LIABILITIES</b>                                           |                    |                    |
| Bank overdraft                                               |                    | 8                  |
| Long-term debt (Note 9)                                      | 124 000            | 189 253            |
| Accounts and commitments payable and accrued expenses        | 163                | 119                |
| Accrued interest                                             | <u>1 051</u>       | <u>4 550</u>       |
|                                                              | <u>125 214</u>     | <u>193 930</u>     |

The notes are an integral part of the financial statements.

On behalf of the Board,  
Gilles Lépine, Director  
Pasquale (Pat) Di Lillo, Director

## RÉGIE DES INSTALLATIONS OLYMPIQUES

### NOTES TO FINANCIAL STATEMENTS

as at October 31, 2004

(in thousands of dollars)

#### 1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Régie des installations olympiques (the Régie) is a mandatory corporation of the Gouvernement du Québec, incorporated by legislation adopted by the Gouvernement du Québec, the Act respecting the Régie des installations olympiques.

The Régie is the owner of some movable and immovable installations provided for the Games of the 21<sup>st</sup> Olympiad and was mandated to complete the construction and layout of the aforesaid installations as well as to operate them.

The Régie's revenue must be used primarily for its operations. Any excess funds are to be used for the repayment of loans, advances or other obligations of the Régie concerning the completion of the Olympic installations. As soon as the above-mentioned loans and advances are paid and other obligations carried out, the Olympic installations will become the property of the City of Montréal.

The Régie's activities are divided into four primary areas: leasing of commercial premises, offices and sports facilities, production of events, tourism and social.

A significant portion of the Régie's operating budget derives from its social activities, including use of the sports facilities by the general public and for training for elite competitions.

Moreover, the Régie provides on-going support to organizations located in the Hochelaga-Maisonneuve area and East-end Montréal.

#### 2. ASSOCIATED ORGANIZATION

The Special Olympic Fund was constituted by the Act to establish a Special Olympic Fund. This Fund was created to collect from the Minister of Revenue a portion of the special tax on tobacco, the proceeds from the sale of the fixed assets of the Régie's Construction Fund and, formerly, the net receipts reserved for Québec from Loto-Canada.

Managed by the Minister of Finance of Québec, this Special Fund is to be used solely to repay the Régie's loans and related interest and for the completion costs of the Olympic installations.

#### 3. ACCOUNTING PRINCIPLES

a) The financial statements were prepared in accordance with the following accounting policies:

##### Accounting estimates

The preparation of financial statements in accordance the accounting principles that are generally accepted in Canada requires Régie management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions that the Régie may undertake in the future. Actual results may differ from those estimates.

##### Expenses charged from the Revenue Fund to the Construction Fund

Since 1997, the Régie has not charged any direct or indirect administrative expenses related to the completion of the installations to the Construction Fund.

##### Income taxes

Since the Régie is a mandatory corporation of the Gouvernement du Québec, it is not subject to income tax.

##### Taxes

The Régie is subject to the water and service tax but not to the property taxes levied by the City of Montréal.

## RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at October 31, 2004  
(in thousands of dollars)

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### 3. ACCOUNTING PRINCIPLES (cont'd)

a) The financial statements were prepared in accordance with the following accounting policies: (cont'd)

#### Claims

The Régie records claims against third parties only upon receipt of payment.

Provisions have been made for the lawsuits and claims against the Régie for which the outcome is foreseeable.

#### Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

#### Depreciation

Capital assets acquired for operating purposes are depreciated over their estimated service lives according to the straight-line method and the following annual rates and period:

|                                     |                                             |
|-------------------------------------|---------------------------------------------|
| Equipment                           | 10%, 20% and 33.33%                         |
| Structure and specific improvements | 5%, 6.67%, 10% and 20%                      |
| Leasehold improvements              | Term of the Régie tenant's lease for spaces |
| Automotive equipment                | 6.67%, 15%, 20% and 26.33%                  |

The deferred subsidy is amortized at the same rate as the fixed assets to which it is related.

#### Currency conversion

The long-term debt of the Construction Fund comprises borrowings that are repayable in US dollars. These borrowings are converted into Canadian dollars at the exchange rate of \$1.3598 determined in keeping with the currency exchange and interest rate agreement signed on October 31, 1995 with the Consolidated Fund of the province de Québec.

b) The accounting rules used to draw up the financial statements differ significantly from the accounting principles that are generally recognized in Canada with regard to the following elements:

#### Construction cost of the installations

Excluding the land on which the Olympic installations are built, the cost includes construction, administrative and financing costs and all long-term debt issuing expenses incurred since the beginning. The cost of machinery and equipment used during the construction period has also been charged to the construction cost of the installations.

#### Disposal of assets

When installations accounted for in the Construction Fund are disposed of, their cost and the corresponding contributions are not written off; however, the proceeds from the disposal of fixed assets are remitted to the Special Olympic Fund in accordance with the legislation governing the Fund (see Note 10).

#### Contributions received

The Régie's policy is not to charge to its operating revenue the depreciation of the construction cost of the Olympic Park and Olympic Village installations, which is reduced by contributions received.

In addition to direct contributions received from associated organizations, contributions received include those received from the Special Olympic Fund for the repayment of debt and for the completion costs not financed by long-term loans.

Contributions received exclude interest on the long-term debt and on short-term loans and possible additional disbursements resulting from the fluctuation of exchange rates at the time of the repayment of debts in foreign currency which are assumed directly by the Special Olympic Fund.



## RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at October 31, 2004  
(in thousands of dollars)

### 4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

The Régie was awarded a subsidy, determined using budgetary forecasts, as financial assistance to offset the deficit.

The Régie also obtained a subsidy of \$10 000 000 to carry out the fixed assets plan (see Note 8).

### 5. INFORMATION INCLUDED IN THE CASH FLOW STATEMENT

The changes in other assets and liabilities are detailed as follows:

|                                                       | 2004          | 2003         |
|-------------------------------------------------------|---------------|--------------|
| Accounts receivable                                   | 6 204         | (6 667)      |
| Inventory                                             | 143           | (60)         |
| Prepaid expenses                                      | 76            | 281          |
| Accounts and commitments payable and accrued expenses | (1 606)       | 2 033        |
| Deferred grants                                       | 9 958         | 9 694        |
|                                                       | <u>14 775</u> | <u>5 281</u> |

### 6. FIXED ASSETS

|                                     | 2004   |                          |        |
|-------------------------------------|--------|--------------------------|--------|
|                                     | Cost   | Accumulated depreciation | Net    |
| Equipment                           | 14 111 | 13 173                   | 938    |
| Structure and specific improvements | 69 051 | 32 960                   | 36 091 |
| Leasehold improvements              | 5 994  | 5 993                    | 1      |
| Automotive equipment                | 1 988  | 1 737                    | 251    |
|                                     | 91 144 | 53 863                   | 37 281 |

|                                     | 2003   |                          |        |
|-------------------------------------|--------|--------------------------|--------|
|                                     | Cost   | Accumulated depreciation | Net    |
| Equipment                           | 13 751 | 12 707                   | 1 044  |
| Structure and specific improvements | 53 982 | 27 149                   | 26 833 |
| Leasehold improvements              | 5 994  | 5 671                    | 323    |
| Automotive equipment                | 1 917  | 1 671                    | 246    |
|                                     | 75 644 | 47 198                   | 28 446 |

### 7. BANK LOAN

The Régie has a line of bank credit for an authorized maximum amount of \$15 000 000 bearing interest at the lender's base rate and renewable in March 2005.

## RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at October 31, 2004  
(in thousands of dollars)

**8. DEFERRED SUBSIDIES**

|                                  | 2004   | 2003   |
|----------------------------------|--------|--------|
| Subsidy - Revenue Fund           |        |        |
| Opening balance                  | 408    | 714    |
| Amount cashed during fiscal year | 20 750 | 22 056 |
|                                  | 21 158 | 22 770 |
| Amount recorded as proceeds      | 20 792 | 22 362 |
| Closing balance                  | 366    | 408    |
| Subsidy - Fixed assets plan      |        |        |
| Opening balance                  | 9 821  |        |
| Amount cashed during fiscal year | 10 000 | 10 000 |
|                                  | 19 821 | 10 000 |
| Amortization for fiscal year     | (721)  | (179)  |
| Closing balance                  | 19 100 | 9 821  |
|                                  | 19 466 | 10 229 |

**9. LONG-TERM DEBT**

|                                                                                | 2004   | 2003   |
|--------------------------------------------------------------------------------|--------|--------|
| <b>Revenue Fund</b>                                                            |        |        |
| Promissory notes issued to the Financing Fund<br>of the Ministère des Finances |        |        |
| 4.152%, maturing in March 2007                                                 | 11 250 | 15 000 |
| 5.333%                                                                         |        | 4 000  |
|                                                                                | 11 250 | 19 000 |

The instalments on long-term debt to be made by the Revenue Fund in the coming fiscal years total \$3 750 000 in 2005, 2006 and 2007.

|                                                                                          | 2004    | 2003    |
|------------------------------------------------------------------------------------------|---------|---------|
| <b>Construction Fund</b>                                                                 |         |         |
| Promissory notes issued to the Financing Fund<br>of the Ministère des Finances du Québec |         |         |
| 4.38%, maturing on November 10, 2004 (a)                                                 | 50 000  | 50 000  |
| 2.55571%, maturing on November 29, 2004 (a)                                              | 74 000  |         |
| 77 036 000 \$ US, 8.052%                                                                 |         | 104 753 |
| 2.751%                                                                                   |         | 10 500  |
| 2.750%                                                                                   |         | 17 000  |
| 2.768%                                                                                   |         | 7 000   |
|                                                                                          | 124 000 | 189 253 |

The instalment on the long-term debt of the Construction Fund over the coming fiscal year is \$124 000 000.

(a) Subsequent to the fiscal year, the Régie refinanced these debts, whose repayments come to term in the next fiscal year.

## RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at October 31, 2004  
(in thousands of dollars)

**10. CONSTRUCTION COST OF THE INSTALLATIONS**

|                                        | 2004      | 2003      |
|----------------------------------------|-----------|-----------|
| Installations used by the Régie        |           |           |
| Olympic Park                           |           |           |
| Opening balance                        | 1 203 243 | 1 205 009 |
| Construction cost for the year         |           |           |
| New roof                               | 1 084     | (1 766)   |
| Closing balance                        | 1 204 327 | 1 203 243 |
| Capitalized interest on long-term debt | 16 160    | 16 160    |
|                                        | 1 220 487 | 1 219 403 |
| Installations disposed of              |           |           |
| Vélodrome (a)                          | 82 804    | 82 804    |
| Biodôme (a)                            | 50 364    | 50 364    |
|                                        | 133 168   | 133 168   |
| Olympic Village (b)                    | 122 520   | 122 520   |
|                                        | 1 476 175 | 1 475 091 |

- (a) In 1994 and in accordance with the agreement signed with the City of Montréal, the Régie transferred ownership of the Biodôme to the City for no consideration. The cost relating to ownership of this property represents \$133 168 000, i.e. \$82 804 000 relating to the Vélodrome and \$50 364 000 relating to the Biodôme (see Note 3).
- (b) The Olympic Village was sold on April 14, 1998 to a private enterprise further to a call for tenders. The accounting treatment of the disposal of the Village is consistent with the accounting policy for the disposal of assets set out in Note 3.

**11. EXPENSES TO BE ASSUMED BY THE SPECIAL OLYMPIC FUND**

|                                                          | 2004    | 2003    |
|----------------------------------------------------------|---------|---------|
| Interest paid on loan refinancing                        | 19 486  | 19 486  |
| Accrued interest on loans                                | 1 051   | 4 550   |
| Deferred exchange losses on long-term debt in US dollars | 96 971  | 96 971  |
|                                                          | 117 508 | 121 007 |

**12. CONTRIBUTIONS RECEIVED**

|                                    | 2004      | 2003      |
|------------------------------------|-----------|-----------|
| Special Olympic Fund               | 1 206 553 | 1 140 157 |
| Olympic Games Organizing Committee | 191 362   | 191 362   |
| City of Montréal                   | 70 649    | 70 649    |
|                                    | 1 468 564 | 1 402 168 |

**RÉGIE DES INSTALLATIONS OLYMPIQUES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at October 31, 2004  
(in thousands of dollars)

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**13. FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to determine the estimated fair value of each category of financial instrument.

**Short-term financial instruments**

Cash, bank acceptances, accounts payable, bank borrowings, accounts receivable and accrued expenses are financial instruments whose fair value is close to their book, given that they mature in the near future.

**Long-term debt**

The fair value of the Construction Fund's long-term debt equals the book value, given that most of the borrowings mature in the next fiscal year.

The fair value of the Revenue Fund's long-term debt is approximately \$11 180 000. To establish this fair value, the Régie capitalized future cash flows envisaged under the rates agreement of which the Régie might avail itself on the date of the financial statements for borrowings involving similar conditions and deadlines.

**14. CONTINGENCIES**

Lawsuits and claims have been instituted by or against the Régie.

As at October 31, 2004, unsettled lawsuits and claims pending against the Régie total approximately \$21 900 000 (\$22 700 000 in 2003).

Of this amount, claims totalling \$20 200 000 (\$20 200 000 in 2003) have been submitted to our insurance companies concerning the incident that occurred on January 18, 1999. It is currently impossible to determine the financial impact that may arise from this incident.

Based on an analysis of claims for which the outcome is foreseeable, an assessment appears to indicate that the provisions recorded are sufficient for all such lawsuits and claims.

**RÉGIE DES INSTALLATIONS OLYMPIQUES****AUDITORS' REPORT**

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To the Minister responsible for the  
Régie des installations olympiques

We have audited the balance sheets of the Revenue Fund and the Construction Fund of the Régie des installations olympiques as at October 31, 2004 and the statements of earnings, appropriated surplus and operating surplus of the Revenue Fund and cash flows of the Revenue Fund and the Construction Fund for the year then ended. These financial statements were drawn up in keeping with the Act respecting the Régie des installations olympiques and the Act to establish a Special Olympic Fund. These financial statements are the responsibility of Régie management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at October 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles described in Note 3. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, these accounting principles have been applied on a basis consistent with that of the preceding year.

These financial statements, which were not drawn up, and need not be drawn up, in keeping with the accounting principles generally recognized in Canada, are supplied solely for information purposes and for use by the Minister responsible for the Régie des installations olympiques. These financial statements were not designed for use, and should not be used, by persons other than specifically defined users determined or for purposes other than those for which they were drawn up.

Raymond Chabot Grant Thornton s.e.n.c.r.l.  
Chartered Accountants

Montréal, December 23, 2004

**RÉGIE DES RENTES DU QUÉBEC**  
(R.S.Q., c. R-9, c. R-15.1, c. P-19.1)  
QUÉBEC PENSION PLAN FUND

REVENUE, EXPENDITURE AND NET ASSETS  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                                                          | 2005       | 2004       | 2003        |
|----------------------------------------------------------------------------------------------------------|------------|------------|-------------|
| <b>REVENUE</b>                                                                                           |            |            |             |
| Contributions to the Québec Pension Plan                                                                 | 8 460 971  | 8 163 099  | 7 367 122   |
| Less:                                                                                                    |            |            |             |
| Bad debts related to uncollected contributions<br>(Note 5)                                               |            |            | 13 920      |
|                                                                                                          | 8 460 971  | 8 163 099  | 7 353 202   |
| Investment income (losses) - net (Note 6)                                                                | 2 215 591  | 3 902 288  | (2 525 265) |
| Other revenue                                                                                            | 2 037      | 1 527      | 741         |
|                                                                                                          | 10 678 599 | 12 066 914 | 4 828 678   |
| <b>EXPENDITURE</b>                                                                                       |            |            |             |
| <b>Pensions and benefits paid</b>                                                                        |            |            |             |
| Retirement benefits                                                                                      | 5 383 433  | 5 054 050  | 4 780 832   |
| Surviving spouse's benefits                                                                              | 1 393 202  | 1 361 405  | 1 299 397   |
| Disability pensions                                                                                      | 671 789    | 626 140    | 590 002     |
| Orphans' pensions                                                                                        | 16 357     | 16 288     | 16 225      |
| Pensions to the children of disabled contributors                                                        | 9 490      | 8 939      | 8 446       |
| Death benefits                                                                                           | 90 678     | 89 755     | 88 964      |
|                                                                                                          | 7 564 949  | 7 156 577  | 6 783 866   |
| <b>Reimbursement of social aid benefits to the<br/>Ministère de l'Emploi et de la Solidarité sociale</b> | 3 504      | 3 802      | 4 119       |
|                                                                                                          | 7 568 453  | 7 160 379  | 6 787 985   |
| <b>Administrative expenses (Note 7)</b>                                                                  | 86 904     | 87 602     | 83 629      |
|                                                                                                          | 7 655 357  | 7 247 981  | 6 871 614   |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                                                   | 3 023 242  | 4 818 933  | (2 042 936) |
| <b>NET ASSETS OF THE PLAN, BEGINNING OF YEAR</b>                                                         | 20 241 515 | 15 422 582 | 17 465 518  |
| <b>NET ASSETS OF THE PLAN, END OF YEAR</b>                                                               | 23 264 757 | 20 241 515 | 15 422 582  |

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, 2005  
(in thousands of dollars)

|                                                                             | <u>2005</u>       | <u>2004</u>       | <u>2003</u>       |
|-----------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                               |                   |                   |                   |
| Amounts entrusted to the Caisse de dépôt et placement<br>du Québec (Note 9) | 23 599 601        | 20 192 003        | 15 844 266        |
| Contributions receivable from Revenu Québec                                 | 1 009             | 180 619           |                   |
| Accounts receivable                                                         | 21 903            | 20 613            | 19 078            |
| Fixed assets (Note 10)                                                      | <u>34 475</u>     | <u>29 872</u>     | <u>25 852</u>     |
|                                                                             | <u>23 656 988</u> | <u>20 423 107</u> | <u>15 889 196</u> |
| <b>LIABILITIES</b>                                                          |                   |                   |                   |
| Outstanding cheques less cash on hand                                       | 45 325            | 43 330            | 38 578            |
| Advances from the Caisse de dépôt et placement<br>du Québec (Note 12)       | 195 109           |                   | 263 702           |
| Contributions repayable to Revenu Québec                                    |                   |                   | 9 722             |
| Accounts payable                                                            | 125 704           | 115 467           | 132 842           |
| Owed to the other funds administrated by the Régie<br>des rentes du Québec  | 4 028             | 1 503             | 975               |
| Provision for vacation time and sick leave (Note 15)                        | <u>22 065</u>     | <u>21 292</u>     | <u>20 795</u>     |
|                                                                             | <u>392 231</u>    | <u>181 592</u>    | <u>466 614</u>    |
| <b>NET ASSETS OF THE QUÉBEC PENSION PLAN (Note 2)</b>                       | <u>23 264 757</u> | <u>20 241 515</u> | <u>15 422 582</u> |
|                                                                             | <u>23 656 988</u> | <u>20 423 107</u> | <u>15 889 196</u> |

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,  
Pierre Prémont, President and General Manager  
Marcel Côté, Director

**RÉGIE DES RENTES DU QUÉBEC****QUÉBEC PENSION PLAN FUND****CASH FLOWS**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                                          | <u>2005</u>        | <u>2004</u>      | <u>2003</u>        |
|--------------------------------------------------------------------------|--------------------|------------------|--------------------|
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                        |                    |                  |                    |
| Excess revenue over expenditure                                          | 3 023 242          | 4 818 933        | (2 042 936)        |
| Non-cash items:                                                          |                    |                  |                    |
| (Increase) decrease of the market value of participation deposits        | (1 115 606)        | (3 349 820)      | 3 162 162          |
| Loss (gain) on disposal of fixed assets                                  | 144                | (91)             |                    |
| Depreciation of fixed assets                                             | 8 268              | 7 981            | 7 603              |
| Amortization of fixed assets attributed to other funds                   | 1 863              | 1 565            | 1 596              |
| Depreciation of fixed assets                                             |                    | 869              |                    |
| Depreciation attributed to other funds                                   |                    | 274              |                    |
|                                                                          | <u>1 917 911</u>   | <u>1 479 711</u> | <u>1 128 425</u>   |
| Net variation in non-cash items linked to operating activities           | <u>117 769</u>     | <u>(218 126)</u> | <u>147 252</u>     |
| Cash receipts linked to operating activities                             | <u>2 035 680</u>   | <u>1 261 585</u> | <u>1 275 677</u>   |
| <b>CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS</b>  |                    |                  |                    |
| Proceeds from the sale of fixed assets                                   | 17                 | 133              |                    |
| Disbursements related to the acquisition of fixed assets                 | <u>(14 895)</u>    | <u>(14 751)</u>  | <u>(14 852)</u>    |
| Net disbursements linked to investment activities involving fixed assets | <u>(14 878)</u>    | <u>(14 618)</u>  | <u>(14 852)</u>    |
| <b>CASH FLOWS RELATED TO INVESTMENT ACTIVITIES</b>                       |                    |                  |                    |
| Disbursements related to the acquisition of participation deposits       | <u>(2 435 003)</u> | <u>(770 920)</u> | <u>(1 002 284)</u> |
| Net disbursements linked to investment activities                        | <u>(2 435 003)</u> | <u>(770 920)</u> | <u>(1 002 284)</u> |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>              | <u>(414 201)</u>   | <u>476 047</u>   | <u>258 541</u>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 16)</b>            | <u>173 767</u>     | <u>(302 280)</u> | <u>(560 821)</u>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)</b>                  | <u>(240 434)</u>   | <u>173 767</u>   | <u>(302 280)</u>   |

The notes are an integral part of the financial statements.



**RÉGIE DES RENTES DU QUÉBEC****SUPPLEMENTAL PENSION PLANS MONITORING FUND**
**REVENUE AND EXPENDITURE AND FUND BALANCE**  
 for the year ended March 31, 2005  
 (in thousands of dollars)

|                                                                               | <u>2005</u>         | <u>2004</u>         | <u>2003</u>         |
|-------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| <b>REVENUE</b>                                                                |                     |                     |                     |
| Fees                                                                          | 6 269               | 5 901               | 5 425               |
| Other                                                                         | <u>56</u>           | <u>63</u>           | <u>117</u>          |
|                                                                               | 6 325               | 5 964               | 5 542               |
| Yield attributed by the Québec<br>Pension Plan Fund (Note 4)                  | <u>596</u>          | <u>907</u>          | <u>(315)</u>        |
|                                                                               | <u>6 921</u>        | <u>6 871</u>        | <u>5 227</u>        |
| <b>LIABILITIES</b>                                                            |                     |                     |                     |
| <b>Administrative expenses (Note 4)</b>                                       |                     |                     |                     |
| Salaries and fringe benefits                                                  | 3 836               | 3 876               | 3 916               |
| Mail and communications                                                       | 85                  | 65                  | 63                  |
| Travelling expenses                                                           | 36                  | 42                  | 49                  |
| Professional and technical services                                           | 264                 | 215                 | 185                 |
| Building maintenance and rental                                               | 210                 | 322                 | 295                 |
| Computer maintenance and rental                                               | 109                 | 95                  | 82                  |
| Supplies                                                                      | 22                  | 37                  | 29                  |
| Other expenses                                                                | 24                  | 25                  | 6                   |
| Bad debts                                                                     | 2                   | 7                   | 2                   |
| Depreciation of the fixed assets allocated by<br>the Québec Pension Plan Fund | 276                 | 213                 | 169                 |
| Depreciation of the fixed assets of the Fund                                  | 229                 | 282                 | 275                 |
| Professional fees related to tutorship and<br>winding-up of plans             |                     | <u>10</u>           |                     |
|                                                                               | <u>5 093</u>        | <u>5 189</u>        | <u>5 071</u>        |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                        | 1 828               | 1 682               | 156                 |
| <b>OPENING FUND BALANCE</b>                                                   | <u>5 171</u>        | <u>3 489</u>        | <u>3 333</u>        |
| <b>CLOSING FUND BALANCE</b>                                                   | <u><u>6 999</u></u> | <u><u>5 171</u></u> | <u><u>3 489</u></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, 2005  
(in thousands of dollars)

|                                                      | <u>2005</u>  | <u>2004</u>  | <u>2003</u>  |
|------------------------------------------------------|--------------|--------------|--------------|
| <b>ASSETS</b>                                        |              |              |              |
| Cash on hand                                         | 7 172        | 5 196        | 4 492        |
| Accounts receivable                                  | 114          | 111          | 63           |
| Owed by the Quebec Pension Plan Fund                 | 396          | 498          |              |
| Fixed assets (Note 10)                               | <u>202</u>   | <u>353</u>   | <u>539</u>   |
|                                                      | <u>7 884</u> | <u>6 158</u> | <u>5 094</u> |
| <b>LIABILITIES</b>                                   |              |              |              |
| Owed to the Québec Pension Plan Fund                 |              |              | 587          |
| Provision for vacation time and sick leave (Note 15) | <u>885</u>   | <u>987</u>   | <u>1 018</u> |
|                                                      | 885          | 987          | 1 605        |
| <b>FUND BALANCE</b>                                  | <u>6 999</u> | <u>5 171</u> | <u>3 489</u> |
|                                                      | <u>7 884</u> | <u>6 158</u> | <u>5 094</u> |

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,  
Pierre Prémont, President and General Manager  
Marcel Côté, Director

**RÉGIE DES RENTES DU QUÉBEC****SUPPLEMENTAL PENSION PLANS MONITORING FUND****CASH FLOWS**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                                          | <u>2005</u>  | <u>2004</u>    | <u>2003</u>  |
|--------------------------------------------------------------------------|--------------|----------------|--------------|
| <b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>                        |              |                |              |
| Excess revenue over expenditure                                          | 1 828        | 1 682          | 156          |
| Non-cash item:                                                           |              |                |              |
| Amortization of fund's fixed assets                                      | <u>229</u>   | <u>282</u>     | <u>275</u>   |
|                                                                          | 2 057        | 1 964          | 431          |
| Net variation in non-cash items linked to operating activities           | <u>(3)</u>   | <u>(1 164)</u> | <u>132</u>   |
| Net receipts linked to operating activities                              | <u>2 054</u> | <u>800</u>     | <u>563</u>   |
| <b>CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS</b>  |              |                |              |
| Disbursements related to the acquisition of fixed assets                 | <u>(78)</u>  | <u>(96)</u>    | <u>(121)</u> |
| Net disbursements linked to investment activities involving fixed assets | <u>(78)</u>  | <u>(96)</u>    | <u>(121)</u> |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                         | 1 976        | 704            | 442          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 16)</b>            | <u>5 196</u> | <u>4 492</u>   | <u>4 050</u> |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)</b>                  | <u>7 172</u> | <u>5 196</u>   | <u>4 492</u> |

The notes are an integral part of the financial statements.

**RÉGIE DES RENTES DU QUÉBEC****PARENTAL INSURANCE PLAN FUND**

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                     | <u>2005</u>  | <u>2004</u>  | <u>2003</u> |
|-----------------------------------------------------|--------------|--------------|-------------|
| <b>REVENUE</b>                                      |              |              |             |
| Gouvernement du Québec contribution                 | <u>2 147</u> | <u>7 580</u> | <u></u>     |
| <b>EXPENDITURE</b>                                  |              |              |             |
| Depreciation of the fund's<br>fixed assets (Note 8) | 1 581        | 5 488        |             |
| Depreciation of implementation costs<br>(Note 8)    | <u>566</u>   | <u>2 092</u> | <u></u>     |
|                                                     | <u>2 147</u> | <u>7 580</u> | <u></u>     |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>              | <u></u>      | <u></u>      | <u></u>     |

The notes are an integral part of the financial statements.

**RÉGIE DES RENTES DU QUÉBEC****PARENTAL INSURANCE PLAN FUND**

**BALANCE SHEET**  
as at March 31, 2005  
(in thousands of dollars)

|                                     | <u>2005</u>                 | <u>2004</u>  | <u>2003</u>  |
|-------------------------------------|-----------------------------|--------------|--------------|
| <b>ASSETS</b>                       |                             |              |              |
| Gouvernement du Québec receivable   |                             | 7 580        |              |
| Québec Pension Plan Fund receivable |                             |              | 183          |
| Fixed assets (Note 10)              |                             | 1 547        | 6 827        |
| Implementation costs (Note 11)      |                             | <u>553</u>   | <u>2 567</u> |
|                                     | <u>                    </u> | <u>9 680</u> | <u>9 577</u> |
|                                     | <u>                    </u> | <u>9 680</u> | <u>9 577</u> |
| <b>LIABILITIES</b>                  |                             |              |              |
| Notes payable (Note 13)             |                             | <u>9 680</u> | <u>9 577</u> |
|                                     | <u>                    </u> | <u>9 680</u> | <u>9 577</u> |
|                                     | <u>                    </u> | <u>9 680</u> | <u>9 577</u> |

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,  
Pierre Prémont, President and General Manager  
Marcel Côté, Director

**RÉGIE DES RENTES DU QUÉBEC****PARENTAL INSURANCE PLAN FUND****CASH FLOWS**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                                          | <u>2005</u>    | <u>2004</u>    | <u>2003</u>  |
|--------------------------------------------------------------------------|----------------|----------------|--------------|
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>                        |                |                |              |
| Excess revenue over expenditure                                          |                |                |              |
| Non-cash items:                                                          |                |                |              |
| Depreciation of fixed assets                                             | 1 581          | 5 488          |              |
| Depreciation of implementation costs                                     | <u>566</u>     | <u>2 092</u>   |              |
|                                                                          | 2 147          | 7 580          |              |
| Net variation in non-cash items linked to operating activities           | <u>7 580</u>   | <u>(7 397)</u> | <u>(96)</u>  |
| Net disbursements linked to operating activities                         | <u>9 727</u>   | <u>183</u>     | <u>(96)</u>  |
| <b>CASH FLOW LINKED TO INVESTMENT ACTIVITIES INVOLVING FIXED ASSETS</b>  |                |                |              |
| Disbursements related to computer systems development                    | (34)           | (208)          | (191)        |
| Disbursements related to implementation costs                            | (13)           | (78)           | (71)         |
| Proceeds from the sale of fixed assets                                   |                |                | <u>96</u>    |
| Net disbursements linked to investment activities involving fixed assets | <u>(47)</u>    | <u>(286)</u>   | <u>(166)</u> |
| <b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>                        |                |                |              |
| Reimbursement of the note payable                                        | (9 727)        |                |              |
| Receipts from note payable                                               | <u>47</u>      | <u>103</u>     | <u>262</u>   |
| Net (disbursements) receipts linked to financing activities              | <u>(9 680)</u> | <u>103</u>     | <u>262</u>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                         |                |                |              |
| <b>OPENING AND CLOSING CASH AND CASH EQUIVALENTS (Note 16)</b>           |                |                |              |

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  
REVENUE AND EXPENDITURE  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                                               | 2005          | 2004          | 2003          |
|-------------------------------------------------------------------------------|---------------|---------------|---------------|
| <b>REVENUE</b>                                                                |               |               |               |
| Gouvernement du Québec contribution                                           | <u>25 355</u> | <u>23 747</u> | <u>23 157</u> |
| <b>EXPENDITURE</b>                                                            |               |               |               |
| <b>Financial expenses</b>                                                     |               |               |               |
| Interest on short-term note payable                                           | 36            | 41            |               |
| Interest on long-term note payable                                            | 357           | 508           | 676           |
| Other interest charges                                                        | <u>42</u>     | <u>57</u>     | <u>56</u>     |
|                                                                               | <u>435</u>    | <u>606</u>    | <u>732</u>    |
| <b>Administrative expenses (Note 4)</b>                                       |               |               |               |
| Salaries and fringe benefits                                                  | 14 204        | 12 824        | 12 326        |
| Mail and communications                                                       | 2 536         | 1 351         | 1 506         |
| Travelling expenses                                                           | 162           | 137           | 181           |
| Professional and technical services                                           | 1 274         | 867           | 1 026         |
| Outside medical tests                                                         | 10            | 1             | 2             |
| Building maintenance and rental                                               | 1 352         | 626           | 733           |
| Computer maintenance and rental                                               | 729           | 832           | 858           |
| Supplies                                                                      | 318           | 207           | 197           |
| Other expenses                                                                | 86            | 63            | 35            |
| Participation in the financing of the Tribunal<br>administratif du Québec     | 212           | 219           | 166           |
| Depreciation of the fixed assets allocated by<br>the Québec Pension Plan Fund | 1 587         | 1 352         | 1 427         |
| Depreciation of the fixed assets of the Fund                                  | 2 450         | 4 388         | 3 889         |
| Amortization of implementation expenses                                       |               |               | 79            |
| Depreciation of fixed assets attributed by the<br>Québec Pension Plan Fund    |               | 274           |               |
|                                                                               | <u>24 920</u> | <u>23 141</u> | <u>22 425</u> |
|                                                                               | <u>25 355</u> | <u>23 747</u> | <u>23 157</u> |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                        |               |               |               |

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  
BALANCE SHEET OF THE FUNDS  
as at March 31, 2005  
(in thousands of dollars)

|                                                      | <u>2005</u>   | <u>2004</u>   | <u>2003</u>   |
|------------------------------------------------------|---------------|---------------|---------------|
| <b>ASSETS</b>                                        |               |               |               |
| Québec Pension Plan Fund receivable                  | 3 632         | 1 005         | 1 379         |
| Fixed assets (Note 10)                               | <u>10 662</u> | <u>10 488</u> | <u>13 940</u> |
|                                                      | <u>14 294</u> | <u>11 493</u> | <u>15 319</u> |
| <b>LIABILITIES</b>                                   |               |               |               |
| Accrued expenses                                     | 179           | 92            | 106           |
| Gouvernement du Québec payable                       | 2 513         | 606           | 655           |
| Provision for vacation time and sick leave (Note 15) | 944           | 896           | 848           |
| Notes payable (Note 13)                              | <u>10 658</u> | <u>9 899</u>  | <u>13 710</u> |
|                                                      | <u>14 294</u> | <u>11 493</u> | <u>15 319</u> |

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,  
Pierre Prémont, President and General Manager  
Marcel Côté, Director



**RÉGIE DES RENTES DU QUÉBEC****FUND FOR THE ADMINISTRATION OF THE  
REFUNDABLE CHILD SUPPORT TAX CREDIT****CASH FLOWS**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                                              | <u>2005</u>    | <u>2004</u>    | <u>2003</u>    |
|------------------------------------------------------------------------------|----------------|----------------|----------------|
| <b>CASH FLOWS RELATED TO OPERATING<br/>ACTIVITIES</b>                        |                |                |                |
| Excess revenue over expenditure                                              |                |                |                |
| Non-cash items:                                                              |                |                |                |
| Amortization of fund's fixed assets                                          | 2 450          | 4 388          | 3 889          |
| Amortization of implementation costs                                         |                |                | 79             |
|                                                                              | <u>2 450</u>   | <u>4 388</u>   | <u>3 968</u>   |
| Net variation in non-cash items linked to<br>operating activities            | <u>(585)</u>   | <u>359</u>     | <u>169</u>     |
| Net receipts linked to operating activities                                  | <u>1 865</u>   | <u>4 747</u>   | <u>4 137</u>   |
| <b>CASH FLOWS LINKED TO INVESTMENT ACTIVITIES<br/>INVOLVING FIXED ASSETS</b> |                |                |                |
| Disbursements related to the acquisition of fixed assets                     | <u>(2 624)</u> | <u>(936)</u>   | <u>(736)</u>   |
| Net disbursements linked to investment activities<br>involving fixed assets  | <u>(2 624)</u> | <u>(936)</u>   | <u>(736)</u>   |
| <b>CASH FLOWS RELATED TO FINANCING<br/>ACTIVITIES</b>                        |                |                |                |
| Receipts from notes payable                                                  | 2 549          |                | 40             |
| Reimbursement of notes payable                                               | <u>(1 790)</u> | <u>(3 811)</u> | <u>(3 441)</u> |
| Net receipts (disbursements) linked to financing activities                  | <u>759</u>     | <u>(3 811)</u> | <u>(3 401)</u> |
| <b>NET INCREASE IN CASH AND CASH<br/>EQUIVALENTS</b>                         | <u></u>        | <u></u>        | <u></u>        |
| <b>OPENING AND CLOSING CASH AND<br/>CASH EQUIVALENTS (Note 16)</b>           | <u></u>        | <u></u>        | <u></u>        |

The notes are an integral part of the financial statements.

**RÉGIE DES RENTES DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

(in thousands of dollars)

**1. CONSTITUTION AND MANDATE OF THE RÉGIE DES RENTES DU QUÉBEC**

The Régie was created in 1965 by the act entitled Québec Pension Plans (1965, chapter 24). The Régie administers the Act respecting the Québec Pension Plan (R.S.Q., c. R-9) as well as the Supplemental Pension Plans Act (R.S.Q., c. R-15.1) and the Act respecting family benefits (R.S.Q., c. P-19.1) and, under the provisions of the Québec government's budget of March 30, 2004, it administers that portion of the Income Tax Act that deals with the refundable child support tax credit. Moreover, in 1997, the Gouvernement du Québec entrusted it with the administration of the Parental Insurance Plan (Act respecting the Parental Insurance Plan (Q.S., 2001, c. 9). However, this legislation is expected to be amended to entrust its administration and implementation to the parental insurance management board and the Ministère de l'Emploi et de la Solidarité sociale.

As a government agent, the Régie is not subject to income tax.

**2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE**

The following description is provided for information purposes. For more comprehensive information concerning the programs, please consult the Act respecting the Québec Pension Plan.

**1) QUÉBEC PENSION PLAN**

The Act respecting the Québec Pension Plan entered 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.

**Funding and net assets of the Québec Pension Plan Fund**

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 and constitute a reserve allowing the Plan's financing to be stabilized in a context of population aging and to protect the Plan from economic fluctuations. The net assets of the Québec Pension Plan Fund 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, 2005, the Régie's net assets were \$23.3 billion (2004: \$20.2 billion), (2003: \$15.4 billion) or 3.1 times the amount of the pensions and benefits paid out in fiscal 2003-2004.

According to the last actuarial analysis, at December 31, 2003, 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 aid benefits owing throughout the projection period, i.e. until 2055. However, the reserve (net Plan assets) should be less than twice the annual fund outflows as of 2048. Since actuarial analyses are carried out every three years, the next one will report on the Plan's situation at December 31, 2006.

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 0.3 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.

According to actuarial analysis assumptions for 2003, this equilibrium rate is 10.3%, a difference of 0.4 compared to the premium rate of 9.9 % set by the Act. This difference, which exceeds the tolerance zone by 0.3 points, was posted for the first time in an actuarial analysis.

## RÉGIE DES RENTES DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

## 2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE (cont'd)

### 1) QUÉBEC PENSION PLAN (cont'd)

#### Funding and net assets of the Québec Pension Plan Fund (cont'd)

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 the ratio between the reserve and annual disbursements stable.

At least every six years, a public consultation must be held to study the application of the Act respecting the Québec Pension Plan and the desirability of modifying both the benefits and the contribution rate. Preparatory work based on the proposed amendment to the Plan discussed in the 2004 public consultation is under way.

#### 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 1/2% per month of difference with the 65-year anniversary date, depending on whether the person applies for the pension before or after the age of 65. For new beneficiaries, at March 31, 2005, the maximum monthly pension payable at the age of 65 was \$828.75.

#### 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 during at least one-third of the contributory period (minimum of three years; maximum of ten years). The amount of this pension varies mainly according to the surviving spouse's age and the pensionable earnings and contributions of the deceased. For new beneficiaries, at March 31, 2005, the maximum monthly pension payable to a surviving spouse was \$710.37.

#### 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 gains and contributions of the disabled person. For new beneficiaries, at March 31, 2005, the maximum monthly pension payable to a disabled contributor was \$1 010.20.

#### Benefits - pensions payable to the children of disabled contributors and to orphans

For new beneficiaries, at March 31, 2005, the amount of monthly benefits payable to each dependent child or orphan of a disabled or deceased contributor was \$62.22.

#### 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 following 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, 2005, the rate of indexation was 1.7%.

**RÉGIE DES RENTES DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**2. DESCRIPTION OF PROGRAMS ADMINISTERED BY THE RÉGIE (cont'd)****II) 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 monitoring fund is comprised of the fees paid into it by the supplemental pension plans.

**III) PARENTAL INSURANCE PLAN**

The Parental Insurance Plan falls under the Québec government family policy and is designed to provide support parents in order to give good care to newborns or adopted children. Further, the plan creates better conditions for access to maternity and parental leave and offers more generous compensation for these holidays. The new Québec Parental Insurance Plan will come into effect on July 1, 2006 and, as of this date, it will be administered by parental insurance the management board and by the Ministère de l'Emploi et de la Solidarité sociale.

**IV) REFUNDABLE CHILD SUPPORT TAX  
ADMINISTRARION FUND PROGRAMS**

The Régie administered the family benefits program under the Act respecting family benefits for the period ending December 31, 2004 and the measures relating to the refundable child support tax credit under the Taxation Act.

On January 1, 2005, the new refundable child support tax credit replaced the family benefits program. Persons with dependent children under age 18 receive an amount which varies according to family type (single-parent or two-parent), number of eligible children and family income the previous year.

A supplement is paid for eligible handicapped children. At March 31, 2005, this allowance was \$121/month.

The Régie deals with customer relations and payment of child support measures.

**3. ACCOUNTING POLICIES**

The financial statements of the Régie were prepared by Régie's management in keeping with accounting principles that are generally recognized in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are shown at acquisition cost. Intangible 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.

Fixed assets are amortized according to the straight-line method based on 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 |

Leasehold improvements are amortized according to the straight-line method over the remaining term of the lease.

## RÉGIE DES RENTES DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

### 3. ACCOUNTING POLICIES (cont'd)

#### Implementation costs

In addition to the direct costs, the costs inherent in implementing the Parental Insurance Plan, include interest and a share in the general and administrative costs. Implementation costs are amortized according to the straight-line method over a five-year period, as of the date the activities of the corresponding program began.

#### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise 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 contributions as an employer.

#### Amounts entrusted to the Caisse de dépôt et placement du Québec

Demand deposits are recorded at acquisition cost. Participation deposits are recorded at market value, which is established on the basis of the fair value of units, as determined by the Caisse de dépôt et placement du Québec.

#### Contributions to the Plan

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.

#### Net investment income

The Régie records interest and penalties earned 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 are known.

### 4. ADMINISTRATIVE EXPENSE SHARING AND ATTRIBUTION OF YIELD BETWEEN THE VARIOUS FUNDS ADMINISTERED BY THE RÉGIE DES RENTES DU QUÉBEC

The means used to divide administrative costs among the various funds administered by the Régie des rentes du Québec is established by attributing the direct costs for each fund to that fund and distributing indirect costs based on the efforts the Régie planned to devote to each fund.

The liquid assets of the Supplemental Pension Plans Monitoring Fund are entrusted to the Québec Pension Plan 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 Supplemental Pension Plans Monitoring Fund.

### 5. EXPENSES RELATED TO CONTRIBUTION COLLECTION BY REVENU QUÉBEC

According to the Act respecting the Québec Pension Plan, Revenu Québec is the agency mandated to collect the contributions to the Plan. In the context of this mandate, the Department invoices the Régie for administrative expenses 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.

Administrative costs were analyzed by Revenu Québec in fiscal 2001-2002. Since fiscal 2001, discussions have been under way to update the costs inherent in the accounts receivable for 2001 and could involve recovery that cannot, however, be reasonable estimated as at March 31, 2005. Consequently, since the beginning of fiscal 2003-2004, Revenu Québec suspended the invoicing generally done in this regard.

## RÉGIE DES RENTES DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**5. EXPENSES RELATED TO CONTRIBUTION COLLECTION  
BY REVENU QUÉBEC (cont'd)**

|                                                                         | 2005          | 2004          | 2003          |
|-------------------------------------------------------------------------|---------------|---------------|---------------|
| Administrative expenses                                                 | 13 559        | 13 190        | 12 906        |
| Costs inherent in accounts receivable:                                  |               |               |               |
| Interest paid by Revenu Québec                                          |               |               | 9 473         |
| Interest earned by Revenu Québec<br>when collection accounts receivable |               |               | (4 060)       |
| Bad debts linked to contributions not collected                         |               |               | 13 920        |
|                                                                         | <u>13 559</u> | <u>13 190</u> | <u>32 239</u> |

**6. INVESTMENT INCOME (LOSSES) OF THE QUÉBEC PENSION PLAN FUND**

|                                                                                              | 2005             | 2004             | 2003               |
|----------------------------------------------------------------------------------------------|------------------|------------------|--------------------|
| <b>Revenue</b>                                                                               |                  |                  |                    |
| Amounts deposited with the General Fund of the Caisse<br>et placement du Québec              |                  |                  |                    |
| Revenue from participation deposits                                                          | 837 361          | 761 346          | 749 170            |
| Other interest                                                                               | 3 834            | 3 284            | 211                |
|                                                                                              | <u>841 195</u>   | <u>764 630</u>   | <u>749 381</u>     |
| Interest and penalty earnings on the issue of<br>contribution notices                        | 16 661           | 13 551           | 12 338             |
| Interest earnings realized by Revenu Québec<br>on the collection of receivables (Note 5)     |                  |                  | 4 060              |
| Interest on bank deposits                                                                    | 52               | 72               | 65                 |
|                                                                                              | <u>857 908</u>   | <u>778 253</u>   | <u>765 844</u>     |
| <b>Expenditure</b>                                                                           |                  |                  |                    |
| Interest on advances from the Caisse de dépôt<br>et placement du Québec                      | (1 186)          | (1 812)          | (7 154)            |
| Interest on pensions and benefits                                                            | (1039)           | (1 550)          | (1 983)            |
| Interest borne by Revenu Québec (Note 5)                                                     |                  |                  | (9 473)            |
| Yield attributed to the Supplemental Pension Plans<br>Monitoring Fund (Note 4)               | (596)            | (907)            | 315                |
| Interest on bank overdraft                                                                   | (4)              | (7)              | (8)                |
|                                                                                              | <u>855 083</u>   | <u>773 977</u>   | <u>747 541</u>     |
| Change in the fair value of funds entrusted to the<br>Caisse de dépôt et placement du Québec |                  |                  |                    |
| Increase (decrease) in the fair value of participation<br>deposits                           | 1 115 606        | 3 349 820        | (3 162 162)        |
| Net gains (losses) on sale of investments                                                    | 244 902          | (221 509)        | (110 644)          |
|                                                                                              | <u>1 360 508</u> | <u>3 128 311</u> | <u>(3 272 806)</u> |
|                                                                                              | <u>2 215 591</u> | <u>3 902 288</u> | <u>(2 525 265)</u> |

## RÉGIE DES RENTES DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**7. ADMINISTRATIVE EXPENSES OF THE QUÉBEC PENSION PLAN FUND**

|                                                                                  | 2005          | 2004          | 2003          |
|----------------------------------------------------------------------------------|---------------|---------------|---------------|
| Salaries and fringe benefits                                                     | 45 076        | 43 676        | 40 927        |
| Mail and communications                                                          | 3 882         | 3 524         | 3 583         |
| Travelling expenses                                                              | 624           | 792           | 871           |
| Professionals and technical services                                             | 3 900         | 5 249         | 5 823         |
| Outside expert medical opinions                                                  | 1 716         | 1 491         | 1 994         |
| Building maintenance and rental                                                  | 3 600         | 3 698         | 3 303         |
| Computer maintenance and leasing                                                 | 2 554         | 2 476         | 2 466         |
| Supplies                                                                         | 572           | 541           | 669           |
| Other expenses                                                                   | 198           | 381           | 378           |
| Expenses related to collection of contributions<br>by the Revenu Québec (Note 5) | 13 559        | 13 190        | 12 906        |
| Participation in the financing of the Tribunal<br>administratif du Québec        | 1 556         | 1 972         | 1 883         |
| Overpaid pensions and benefits                                                   | 1 304         | 1 599         | 1 127         |
| Bad debts                                                                        | 95            | 163           | 96            |
| Depreciation of fixed assets                                                     | 8 268         | 7 981         | 7 603         |
| Depreciation of the fund's fixed assets                                          |               | 869           |               |
|                                                                                  | <u>86 904</u> | <u>87 602</u> | <u>83 629</u> |

**8. LONG-TERM DEPRECIATION OF FIXED ASSETS**

Following the Government's decision to entrust the administration of the Parental Insurance Plan to the parental insurance management board and the Ministère de l'Emploi et de la Solidarité sociale, the balance of the Plan's computer systems start-up and development costs, which had been capitalized since 1997, were written off entirely. Depreciation of \$1 581 253 was posted to fixed assets and depreciation of \$565 494 was posted to start-up costs.

**9. AMOUNTS FROM THE QUÉBEC PENSION PLAN FUND ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

|                                                                                 | 2005              | 2004              | 2003              |
|---------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Deposits with the General Fund of the Caisse de dépôt<br>et placement du Québec |                   |                   |                   |
| Demand deposits                                                                 |                   | 217 097           |                   |
| Participation deposits                                                          | 23 454 693        | 19 904 084        | 15 783 344        |
| Investment income receivable                                                    | 144 908           | 70 822            | 60 922            |
|                                                                                 | <u>23 599 601</u> | <u>20 192 003</u> | <u>15 844 266</u> |

**RÉGIE DES RENTES DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**9. AMOUNTS FROM THE QUÉBEC PENSION PLAN FUND ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**

Participation deposits with the General Fund of the Caisse de dépôt et placement du Québec are expressed in units. 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 the General Fund at the end of each month. At March 31, 2005, the Régie owned 25 768 928 participation units (2004: 22 988 745; 2003: 22 024 068).

|               | 2005              | 2004              | 2003              |
|---------------|-------------------|-------------------|-------------------|
| Cost of units | <u>21 303 310</u> | <u>18 868 307</u> | <u>18 097 387</u> |

The audited financial statements of the general fund of the Caisse de dépôt et placement du Québec are available to the public and supply details on investments held.

**10. FIXED ASSETS**

|                                                   | 2005           |                          |               | 2004          | 2003          |
|---------------------------------------------------|----------------|--------------------------|---------------|---------------|---------------|
|                                                   | Cost           | Accumulated depreciation | Net           | Net           | Net           |
| <b>Québec Pension Plan Fund</b>                   |                |                          |               |               |               |
| Office furniture and equipment                    | 4 820          | 4 042                    | 778           | 769           | 629           |
| Data procession equipment and software            | 25 370         | 20 133                   | 5 237         | 5 801         | 6 527         |
| Automotive equipment                              | 61             | 41                       | 20            | 41            |               |
| Leasehold improvements                            | 3 996          | 2 542                    | 1 454         | 1 431         | 1 266         |
| Computer systems development                      | <u>78 482</u>  | <u>51 496</u>            | <u>26 986</u> | <u>21 830</u> | <u>17 430</u> |
|                                                   | <u>112 729</u> | <u>78 254</u>            | <u>34 475</u> | <u>29 872</u> | <u>25 852</u> |
| <b>Supplemental Pension Plans Monitoring Fund</b> |                |                          |               |               |               |
| Computer systems development                      | <u>1 755</u>   | <u>1 553</u>             | <u>202</u>    | <u>353</u>    | <u>539</u>    |
| <b>Parental Insurance Plan Fund</b>               |                |                          |               |               |               |
| Computer systems development (Note 8)             |                |                          |               | 1 547         | 6 827         |
|                                                   |                |                          |               | <u>1 547</u>  | <u>6 827</u>  |



## RÉGIE DES RENTES DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**10. FIXED ASSETS (cont'd)**

|                                                                | 2005          |                          | 2004          | 2003          |
|----------------------------------------------------------------|---------------|--------------------------|---------------|---------------|
|                                                                | Cost          | Accumulated depreciation | Net           | Net           |
| <b>Refundable Child Support Tax Credit Administration Fund</b> |               |                          |               |               |
| Office furniture and equipment                                 | 48            | 48                       |               |               |
| Computer hardware and software                                 | 160           | 160                      |               |               |
| Computer systems development                                   | 29 642        | 18 980                   | 10 662        | 13 940        |
|                                                                | <u>29 850</u> | <u>19 188</u>            | <u>10 662</u> | <u>13 940</u> |

Acquisitions for the year are:

|                                                         | Acquisitions before interest | Capitalized interest | Total acquisitions |
|---------------------------------------------------------|------------------------------|----------------------|--------------------|
| Québec Pension Plan Fund                                | 14 895                       |                      | 14 895             |
| Supplemental Pension Plans Monitoring Fund              | 78                           |                      | 78                 |
| Parental Insurance Plan Fund                            |                              | 34                   | 34                 |
| Refundable Child Support Tax Credit Administration Fund | 2 621                        | 3                    | 2 624              |

Fixed assets with a net book value of \$160 866 were disposed of during the fiscal year in the Québec Pension Plan Fund. The proceeds from the sale totalled \$17 226.

**11. IMPLEMENTATION COSTS**

|                                       | 2005 |                          | 2004 | 2003  |
|---------------------------------------|------|--------------------------|------|-------|
|                                       | Cost | Accumulated depreciation | Net  | Net   |
| Parental Insurance Plan Fund (Note 8) |      |                          | 553  | 2 567 |

During the year, interest of \$13 000 was capitalized to implementation costs of the Parental Insurance Plan Fund.

**12. 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 4, 2008.

**RÉGIE DES RENTES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

**13. NOTES PAYABLE**

|                                                                | <u>2005</u>       | <u>2004</u>  | <u>2003</u>   |
|----------------------------------------------------------------|-------------------|--------------|---------------|
| <b>Parental Insurance Plan Fund</b>                            |                   |              |               |
| Short-term borrowing                                           | <u>          </u> | <u>9 680</u> | <u>9 577</u>  |
| <b>Refundable Child Support Tax Credit Administration Fund</b> |                   |              |               |
| Short-term borrowing                                           | 3 763             | 1 214        | 1 453         |
| Long-term borrowing                                            | <u>6 895</u>      | <u>8 685</u> | <u>12 257</u> |
|                                                                | <u>10 658</u>     | <u>9 899</u> | <u>13 710</u> |

**Short-term borrowing in the Refundable Child Support Tax Credit Administration Fund**

The borrowing on note from the Financing Fund of the Gouvernement du Québec at 2.57% will mature on April 1, 2005. It was contracted to fund to develop of the Refundable Child Support Tax Credit Administration Fund's computer systems, with the Régie acting as the Government's agent.

**Long-term borrowing in the Refundable Child Support Tax Credit Administration Fund**

On October 1, 2004, the borrowing on note from the Financing Fund of the Gouvernement du Québec at 4.74% was refinanced at 3.83% until June 1, 2008. It had initially been contracted for the start-up and development of computer system for the family benefits program, with the Régie acting as the Government's agent.

Payments of principal on the long-term borrowing for the next five years are as follows:

|      |             |
|------|-------------|
| 2006 | \$1 927 776 |
| 2007 | 2 141 515   |
| 2008 | 2 246 749   |
| 2009 | 578 607     |
| 2010 | --          |

**Gouvernement du Québec guarantee**

To guarantee the payment of principal and interest, the Minister of Famille, des Aînés et de la Condition féminine is authorized by the Government, after ensuring that the funds concerned cannot legally discharge their obligations, to pay the Régie the required sums.

## RÉGIE DES RENTES DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

##### Other assets and liabilities

The fair value of cash, demand deposits, contributions receivable or repayable, accounts receivable, amounts owed by the Québec Pension Plan Fund or to the other funds, amount owed by the Gouvernement du Québec, outstanding cheques, Caisse de dépôt et placement du Québec advances, accounts payable, accrued liabilities and the short-term bill payable are equal to their book value given that they mature in the near future.

##### Long-term borrowing

At March 31, 2005, the fair value of the Refundable Child Support Tax Credit Administration Fund long-term borrowing was \$7 189 492, given the capitalization of cash flows at the market value for similar fixed-rate securities.

#### 15. FRINGE BENEFITS

##### Pension plans

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Régie's contributions charged to the year-end statement, based on the contribution rates set for regular service, amount to \$2 078 737 (2004: \$2 008 351; 2003: \$1 790 507). The Régie's liability towards these government plans is restricted to its contributions as an employer.

##### Provision for vacation time and sick leave

|                                                       | 2005    | 2004    | 2003    |
|-------------------------------------------------------|---------|---------|---------|
| <b>Québec Pension Plan Fund</b>                       |         |         |         |
| Opening balance                                       | 21 292  | 20 795  | 19 347  |
| Expenditures                                          | 7 516   | 7 132   | 7 161   |
| Utilisation                                           | (6 743) | (6 635) | (5 713) |
| Closing balance                                       | 22 065  | 21 292  | 20 795  |
| <b>Supplemental Pension Plans<br/>Monitoring Fund</b> |         |         |         |
| Opening balance                                       | 987     | 1 018   | 929     |
| Expenditures                                          | 206     | 248     | 303     |
| Utilisation                                           | (308)   | (279)   | (214)   |
| Closing balance                                       | 885     | 987     | 1 018   |

**RÉGIE DES RENTES DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
 March 31, 2005  
 (in thousands of dollars)

**15. FRINGE BENEFITS (cont'd)****Provision for vacation time and sick leave (cont'd)**

|                                                                | <u>2005</u>  | <u>2004</u>  | <u>2003</u>  |
|----------------------------------------------------------------|--------------|--------------|--------------|
| <b>Refundable Child Support Tax Credit Administration Fund</b> |              |              |              |
| Opening balance                                                | 896          | 848          | 686          |
| Expenditures                                                   | 442          | 454          | 440          |
| Utilisation                                                    | <u>(394)</u> | <u>(406)</u> | <u>(278)</u> |
| Closing balance                                                | <u>944</u>   | <u>896</u>   | <u>848</u>   |

**16. CASH FLOW**

The cash and cash equivalents shown in the cash flow statement include the following financial statement items:

|                                                             | <u>2005</u>      | <u>2004</u>    | <u>2003</u>      |
|-------------------------------------------------------------|------------------|----------------|------------------|
| <b>Québec Pension Plan Fund</b>                             |                  |                |                  |
| Demand deposits (Note 9)                                    |                  | 217 097        |                  |
| Outstanding cheques minus cash                              | (45 325)         | (43 330)       | (38 578)         |
| Advances from the Caisse de dépôt et placement<br>du Québec | <u>(195 109)</u> |                | <u>(263 702)</u> |
|                                                             | <u>(240 434)</u> | <u>173 767</u> | <u>(302 280)</u> |
| <b>Supplemental Pension Plans Monitoring Fund</b>           |                  |                |                  |
| Cash                                                        | <u>7 172</u>     | <u>5 196</u>   | <u>4 492</u>     |

**Parental Insurance Plan Fund**

This Fund has no cash or cash equivalents since it is administered by the Québec Pension Plan. The Ministère de l'Emploi et de la Solidarité sociale reimbursed the Régie for all expenses incurred for this Fund.

**Refundable Child Support Tax Credit Administration Fund**

This Fund has no cash or cash equivalents since it is administered by the Québec Pension Plan. The Ministère de l'Emploi et de la Solidarité sociale reimbursed the Régie for all expenses incurred for this Fund.

**17. CONTRACTUAL COMMITMENTS**

The Régie had already signed contracts for fiscal 2006 and following in the amount of \$25 044 000 with various suppliers, including \$1 200 000 for Refundable Child Support Tax Credit Administration Fund computer systems development projects.

**RÉGIE DES RENTES DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**18. COMPARATIVE FIGURES**

Certain 2004 and 2003 figures were reclassified for consistency with the presentation adopted in 2005.

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the financial statement of the Québec Pension Plan Fund as at March 31, 2005 and the statement of revenue and expenditures and net assets and the cash flow statement for the fiscal year ended that date. I have also audited the balance sheets of the Supplemental Pension Plans Monitoring Fund, the Parental Insurance Fund and the Fund for the Refundable Child Support Tax Credit Administration Fund of the Régie des rentes du Québec as at March 31, 2005; the statement of revenue and expenditure and fund balance and cash flow statements for the Supplemental Pension Plans Monitoring Fund and the cash flow statement for the Parental Insurance Plan and 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 consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation

In my opinion, these financial statements present, in all material respects, the financial position of the Régie's funds as at March 31, 2005 and their revenues, expenditure and cash flow for the fiscal year then ended in keeping with the accounting principles that are generally recognized in Canada. As required by the Auditor General Act (R.S.Q., c. V-5.01), I report that, in my opinion, these policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, May 5, 2005

**RÉGIE DU CINÉMA**  
(R.S.Q., c. C-18.1)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                            | <u>2005</u>         | <u>2004</u>         |
|--------------------------------------------|---------------------|---------------------|
| <b>REVENUE</b>                             |                     |                     |
| Examination fees:                          |                     |                     |
| Film classification requests               | \$1 252 280         | \$1 339 177         |
| Licence applications                       | 79 212              | 90 894              |
| Licences                                   | 1 047 796           | 1 202 106           |
| Monitoring of video material               | 11 352 735          | 8 462 155           |
| Other                                      | <u>443 335</u>      | <u>423 737</u>      |
|                                            | <u>14 175 358</u>   | <u>11 518 069</u>   |
| <br><b>EXPENDITURE</b>                     |                     |                     |
| Salaries and fringe benefits               | 2 659 785           | 2 944 776           |
| Rent                                       | 433 893             | 435 945             |
| Printing services                          | 234 038             | 344 802             |
| Transportation and communication           | 160 581             | 174 956             |
| Amortization of fixed assets               | 66 003              | 70 847              |
| Amortization of intangible assets          | 76 010              | 76 010              |
| Professional and administrative services   | 109 808             | 128 008             |
| Materials and supplies                     | 67 228              | 63 366              |
| Maintenance and repairs                    | <u>47 429</u>       | <u>41 513</u>       |
|                                            | <u>3 854 775</u>    | <u>4 280 223</u>    |
| <br><b>EXCESS REVENUE OVER EXPENDITURE</b> | 10 320 583          | 7 237 846           |
| <br><b>SURPLUS, BEGINNING OF YEAR</b>      | <u>23 468 630</u>   | <u>16 230 784</u>   |
| <br><b>SURPLUS, END OF YEAR</b>            | <u>\$33 789 213</u> | <u>\$23 468 630</u> |

The notes are an integral part of the financial statements.

## RÉGIE DU CINÉMA

BALANCE SHEET  
as at March 31, 2005

|                                          | <u>2005</u>         | <u>2004</u>         |
|------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                            |                     |                     |
| <b>Current assets</b>                    |                     |                     |
| Cash on hand                             | \$34 518 350        | \$24 173 505        |
| Accounts receivable and accrued interest | 303 474             | 301 925             |
| Gouvernement du Québec receivable        | <u>51 010</u>       | <u>123 835</u>      |
|                                          | 34 872 834          | 24 599 265          |
| <b>Fixed assets</b> (Note 3)             | 127 616             | 125 893             |
| <b>Intangible assets</b> (Note 4)        | <u>172 119</u>      | <u>168 562</u>      |
|                                          | <u>\$35 172 569</u> | <u>\$24 893 720</u> |
| <b>LIABILITIES</b>                       |                     |                     |
| <b>Current liabilities</b>               |                     |                     |
| Accounts payable and accruals            | \$208 228           | \$229 680           |
| Provision for vacation time              | 293 494             | 278 332             |
| Owing to the Gouvernement du Québec      | 289                 | 136                 |
| Revenues collected in advance            | <u>503 990</u>      | <u>497 367</u>      |
|                                          | 1 006 001           | 1 005 515           |
| <b>Provision for sick leave</b> (Note 5) | <u>377 355</u>      | <u>419 575</u>      |
|                                          | 1 383 356           | 1 425 090           |
| <b>SURPLUS</b> (Note 6)                  | <u>33 789 213</u>   | <u>23 468 630</u>   |
|                                          | <u>\$35 172 569</u> | <u>\$24 893 720</u> |

The notes are an integral part of the financial statements.

On behalf of the Régie,  
Jean Lebel  
Jean-Pierre Gagnon

**RÉGIE DU CINÉMA**NOTES TO FINANCIAL STATEMENTS  
March 31, 2005**1. CONSTITUTION AND PURPOSE**

The Régie du cinéma is a body established by the Cinema Act (R.S.Q., c. C-18.1). Its functions are:

- to classify films;
- to publish regularly, by such means as it considers appropriate, information on the films classified;
- to periodically hold consultations on the classification of films;
- to issue, renew, suspend or revoke exhibitors' or distributors' licences;
- to supervise and monitor the sale, leasing, lending or exchange of video material, and to issue filing certificates;
- to supervise the administration of the chapter on cinema control and supervision and the regulations made under it and to inquire into its operation and how it is being complied with.

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 is not subject to income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Régie were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flows is not shown as it would not provide any useful additional information regarding the Régie's cash flow during the year.

**Fixed assets**

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

|                                 |         |
|---------------------------------|---------|
| Office furniture and equipment  | 5 years |
| Computer equipment and software | 3 years |

**Intangible assets**

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

|                      |         |
|----------------------|---------|
| Computer development | 5 years |
|----------------------|---------|

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.



**RÉGIE DU CINÉMA**NOTES TO FINANCIAL STATEMENT (cont'd)  
March 31, 2005**3. FIXED ASSETS**

|                                 | 2005             |                          | 2004             |
|---------------------------------|------------------|--------------------------|------------------|
|                                 | Cost             | Accumulated depreciation | Net              |
| Office furniture and equipment  | \$43 561         | \$14 032                 | \$29 529         |
| Computer equipment and software | 164 525          | 66 438                   | 98 087           |
|                                 | <u>\$208 086</u> | <u>\$80 470</u>          | <u>\$127 616</u> |
|                                 |                  |                          | <u>\$125 893</u> |

The acquisition of fixed assets for the fiscal year totalled \$67 990 (2004: \$86 699).

**4. INTANGIBLE ASSETS**

|                      | 2005             |                          | 2004             |
|----------------------|------------------|--------------------------|------------------|
|                      | Cost             | Accumulated depreciation | Net              |
| Computer development | <u>\$441 947</u> | <u>\$269 828</u>         | <u>\$172 119</u> |
|                      |                  |                          | <u>\$168 562</u> |

The acquisition of intangible assets for the fiscal year totalled \$79 566 (2004: \$0).

**5. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Régie participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Régie's contributions posted to operations for the fiscal year totalled \$91 545 (2004: \$96 157). The Régie's liability towards these Government plans is restricted to its contributions as an employer.

**Provision for sick leave**

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Opening balance               | \$419 575        | \$430 427        |
| Expenses for the year         | 11 750           | 54 752           |
| Benefits paid during the year | <u>(53 970)</u>  | <u>(65 604)</u>  |
| Closing balance               | <u>\$377 355</u> | <u>\$419 575</u> |

**6. SURPLUS**

As stipulated in section 144.3 of the Act respecting the cinema (R.S.Q., c. C-18.1), the amounts received by the Régie must be used to pay its obligations. Any surplus is paid into the Consolidated Revenue Fund on the dates and in the amounts determined by the Government.

**RÉGIE DU CINÉMA**NOTES TO FINANCIAL STATEMENT (cont'd)  
March 31, 2005**7. COMMITMENTS**

The Régie is committed, under long-term contracts ending on various dates up to April 30, 2007 for administrative services, photocopier rental and label purchases.

Minimum future payments are as follows:

|      |                         |
|------|-------------------------|
| 2006 | \$456 585               |
| 2007 | 302 157                 |
| 2008 | <u>13 611</u>           |
|      | <u><u>\$772 353</u></u> |

**8. ADVANCES FROM THE MINISTER OF FINANCE**

The Régie is authorized, under a Gouvernement du Québec Order-in-Council, to ask for one or more advances whose overall capital may not exceed \$300 000 to offset its short-term lack of liquid assets. Its advances bear interest at the National Bank of Canada prime rate and mature on March 31, 2006. At March 31, 2005, the Régie had not made use of these advances.

**9. RELATED PARTY TRANSACTIONS**

The Régie has entered into an exchange of service agreement with the Ministère de la Culture et des Communications. Under this agreement, the Régie is mandated to inspect accredited bookstores in Québec and, in exchange, the Department agrees to provide the Régie with all services under its jurisdiction in the fields of human resource management. 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 either joint control or significant influence by it. The Régie 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.

**10. FINANCIAL INSTRUMENTS**

The book value of short-term financial instruments represents a reasonable estimate of their fair value, given that they mature in the short term.

**RÉGIE DU CINÉMA****MANAGEMENT'S REPORT**

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The financial statements of the Régie du cinéma were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out periodic audits to ensure that the Régie's internal monitoring is adequate, ongoing and applied uniformly.

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 generally the auditing standards that are generally accepted in Canada. 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 Lebel  
President

Jean-Pierre Gagnon  
Director, Administration

Montréal, June 28, 2005

**RÉGIE DU CINÉMA****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Régie du cinéma as at March 31, 2005 and the statements of revenue and expenditure and surplus flows for the year then ended. These financial statements are the responsibility of Régie management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2005 and the results of its operations and cash flows 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 accounting principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, June 28, 2005

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**  
(R.S.Q., c. D-8.2)

INCOME AND DEFICIT  
for the year ended December 31, 2004

|                                                  | 2004                         | 2003                         |
|--------------------------------------------------|------------------------------|------------------------------|
| <b>REVENUE (Note 3)</b>                          |                              |                              |
| Service delivery (Note 4)                        | \$11 719 207                 | \$16 735 305                 |
| Sales                                            | 4 774 569                    | 4 841 397                    |
| Rent                                             | 1 414 111                    | 1 337 587                    |
| Management income                                | 1 046 690                    | 1 510 610                    |
| Gain on disposal of investment                   | 284 243                      | 71 125                       |
| Investment income                                | 167 236                      | 200 238                      |
| Income from commitments                          | 179 000                      | 43 460                       |
| Other income                                     | 94 021                       | 54 884                       |
|                                                  | <u>19 679 077</u>            | <u>24 794 606</u>            |
| <b>EXPENDITURES (Note 3)</b>                     |                              |                              |
| Services to contractors                          | 8 393 393                    | 13 090 345                   |
| Salaries and fringe benefits                     | 3 750 433                    | 3 999 806                    |
| Purchases                                        | 2 254 326                    | 2 265 249                    |
| Maintenance and repairs                          | 897 457                      | 1 076 797                    |
| Electricity                                      | 662 823                      | 647 674                      |
| Taxes, licences and permits                      | 639 784                      | 651 395                      |
| Rental costs                                     | 177 539                      | 117 808                      |
| Staff-related expenses                           | 170 735                      | 257 841                      |
| Insurance                                        | 369 540                      | 227 904                      |
| Communications                                   | 184 191                      | 184 676                      |
| Advertising                                      | 154 551                      | 187 333                      |
| Office expenses                                  | 56 603                       | 54 016                       |
| Road equipment                                   | 631 391                      | 684 882                      |
| (Accounts recovered) doubtful accounts           | (11 976)                     | 19 076                       |
| Depreciation of capital assets                   | 329 217                      | 430 374                      |
| Professional fees                                | 347 096                      | 341 561                      |
| Studies and market development                   | 117 122                      | 119 773                      |
| Other expenditures                               | 350 381                      | 100 617                      |
| Lasting net depreciation on investments (Note 8) | 3 000 000                    | 200 002                      |
| Gain on disposal of capital assets               | (419)                        | (216 910)                    |
| Share in results of satellite corporation        | 85 813                       | 120 500                      |
| Interest and bank charges                        | 74 318                       | 67 218                       |
| Interest on long-term debt                       | 44 110                       | 46 845                       |
|                                                  | <u>22 678 428</u>            | <u>24 674 782</u>            |
| <b>(NET LOSS) NET INCOME (Note 3)</b>            | (2 999 351)                  | 119 824                      |
| <b>DEFICIT, BEGINNING OF YEAR</b>                | <u>(60 708 057)</u>          | <u>(60 827 881)</u>          |
| <b>DEFICIT, END OF YEAR</b>                      | <u><u>\$(63 707 408)</u></u> | <u><u>\$(60 708 057)</u></u> |

The notes are an integral part of the financial statements.

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**BALANCE SHEET  
as at December 31, 2004

|                                                         | 2004                | 2003                |
|---------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                           |                     |                     |
| <b>Current assets</b>                                   |                     |                     |
| Cash on hand                                            | \$5 906             | \$195 647           |
| Accounts receivable (Note 5)                            | 4 386 452           | 4 608 000           |
| Inventories (Note 6)                                    | 223 862             | 205 175             |
| Prepaid expenses                                        | 13 298              | 23 715              |
|                                                         | <u>4 629 518</u>    | <u>5 032 537</u>    |
| <b>Assets intended for sale</b> (Note 7)                | 1 513 060           | 1 552 262           |
| <b>Investments</b> (Note 8)                             | 9 520 279           | 11 545 439          |
| <b>Capital assets</b> (Note 9)                          | 1 086 495           | 1 327 818           |
| <b>Assets in the form of accrued benefits</b> (Note 14) | 186 275             | 183 686             |
|                                                         | <u>12 306 109</u>   | <u>14 609 205</u>   |
|                                                         | <u>\$16 935 627</u> | <u>\$19 641 742</u> |
| <b>LIABILITIES</b>                                      |                     |                     |
| <b>Current liabilities</b>                              |                     |                     |
| Bank borrowing (Note 10)                                | \$1 675 000         | \$1 025 000         |
| Accounts payable and accruals                           | 4 148 190           | 4 357 888           |
| Holdbacks on contracts                                  | 52 345              | 159 411             |
| Instalment on long-term debt (Note 11)                  | 40 000              | 40 000              |
|                                                         | <u>5 915 535</u>    | <u>5 582 299</u>    |
| <b>Long-term debt</b> (Note 11)                         | 600 000             | 640 000             |
|                                                         | <u>6 515 535</u>    | <u>6 222 299</u>    |
| <b>SHAREHOLDER'S EQUITY</b>                             |                     |                     |
| Capital stock (Note 12)                                 | 69 825 000          | 69 825 000          |
| Contributed surplus                                     | 4 302 500           | 4 302 500           |
| Deficit                                                 | (63 707 408)        | (60 708 057)        |
|                                                         | <u>10 420 092</u>   | <u>13 419 443</u>   |
|                                                         | <u>\$16 935 627</u> | <u>\$19 641 742</u> |
| <b>CONTINGENCIES</b> (Note 17)                          |                     |                     |
| <b>COMMITMENTS</b> (Note 18)                            |                     |                     |

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,  
Michel Garon, Director  
Christian Dubois, Director

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES****CASH FLOWS**

for the year ended December 31, 2004

|                                                            | <u>2004</u>      | <u>2003</u>        |
|------------------------------------------------------------|------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                                |                  |                    |
| Net (loss) income                                          | \$(2 999 351)    | \$119 824          |
| Items not affecting liquid assets:                         |                  |                    |
| Depreciation of capital assets                             | 329 217          | 430 374            |
| Gain on disposal of capital assets                         | (419)            | (216 910)          |
| Loss in value of investments                               | 3 000 000        | 200 002            |
| Gain on disposal of investment                             | (284 243)        | (71 125)           |
| Pension expense                                            | (2 589)          | 3 218              |
| Share in the results of the satellite corporation          | 85 813           | 120 500            |
| Change in non-cash elements linked to operations (Note 13) | <u>(103 486)</u> | <u>314 046</u>     |
| Cash flows provided by operating activities                | <u>24 942</u>    | <u>899 929</u>     |
| <b>INVESTMENT ACTIVITIES</b>                               |                  |                    |
| Acquisition of investments                                 | (1 520 000)      | (2 150 000)        |
| Proceeds from disposal of investments                      | 743 590          | 688 857            |
| Acquisition of capital assets                              | (117 759)        | (1 584 407)        |
| Proceeds from disposal of capital assets                   | 17 528           | 34 930             |
| Contribution to capital assets - Hydro-Québec              | 51 958           | 80 858             |
| Contribution to capital assets - Transports Canada         | <u>172 822</u>   | <u>172 822</u>     |
| Cash flows used for investment activities                  | <u>(824 683)</u> | <u>(2 756 940)</u> |
| <b>FINANCING ACTIVITIES</b>                                |                  |                    |
| Bank loan                                                  | 650 000          | 1 025 000          |
| Long-term debt repayment                                   | <u>(40 000)</u>  | <u>(40 000)</u>    |
| Cash flows provided by financing activities                | <u>610 000</u>   | <u>985 000</u>     |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>           | <u>(189 741)</u> | <u>(872 011)</u>   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>        | <u>195 647</u>   | <u>1 067 658</u>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>              | <u>\$5 906</u>   | <u>\$195 647</u>   |

The notes are an integral part of the financial statements.

## SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

### NOTES TO FINANCIAL STATEMENTS December 31, 2004

#### 1. CONSTITUTION AND PURPOSE

The Société de développement de la Baie-James (the Société) was established under the James Bay Region Development Act (R.S.Q., c. D-8.2). All of its shares are held by the Gouvernement du Québec. The purpose of the Société is to promote, from a sustainable development viewpoint, the territory's economic development, development and exploitation of natural resources, other than hydroelectric. It may initiate, support and participate in projects targeting these goals. Its mission also includes developing the territory under municipal jurisdiction where development and land use planning is concerned.

#### 2. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined according to the first in, first out (FIFO) method.

##### Investments

Portfolio investments in public and private corporations are recorded at acquisition cost less the decline in value, if deemed permanent.

The Société 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.

Any lasting net depreciation in book value of investments and the loss is posted to the fiscal year's results.

##### Capital assets

Capital assets are recorded at cost minus contributions received from third parties and are depreciated over their estimated useful lives on a straight-line basis over the following terms:

|                                                    |                    |
|----------------------------------------------------|--------------------|
| Buildings and improvements to buildings owned      |                    |
| for rental purposes                                | 5, 10 and 20 years |
| Modular homes                                      | 10 years           |
| Furniture, fixtures, equipment and infrastructures | 5 years            |
| Vehicles                                           | 3 years            |

##### Assets intended for sale

Long-term assets intended for sale are estimated at the lesser of book value or fair value minus selling fees. The fair value is determined using the method of price for similar goods that are no longer amortized.

##### Pension Plan

The cost of the pension plan is determined by actuarial calculations and the plan is capitalized using contributions determined using the accumulated benefit method. The pension costs are recorded under results and represent the sum of the following elements:

- The cost of pension benefits granted in exchange for services rendered by employees during the fiscal year;
- Interest expenses on the accumulated benefit obligation and estimated yield on plan assets. To calculate the estimated yield on plan assets, the latter are evaluated at their fair value;



**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

**2. ACCOUNTING POLICIES (cont'd)****Pension Plan (cont'd)**

- 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, according to the higher of the two amounts 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 2004 and 2003).

**Tax status**

Under federal and provincial tax legislation, the James Bay Energy Corporation is not subject to Québec and Canadian income tax. It is, however, subject to provincial tax on capital.

**Cash flows**

The Société's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts whose balances often fluctuate between an overdraft and available funds.

**3. NET (LOSS) INCOME BY ACTIVITY**

|                              | 2004                |                     | 2003                 |
|------------------------------|---------------------|---------------------|----------------------|
|                              | Revenue             | Expenses            | Net gain (loss)      |
| Head office                  | \$29 390            | \$1 529 207         | \$(1 499 817)        |
| Services                     | 12 638 718          | 11 718 290          | 920 428              |
| Development and investment   | 628 124             | 3 660 948           | (3 032 824)          |
| Real estate                  | 1 479 677           | 1 421 477           | 58 200               |
| Hotel and petroleum industry | 4 903 168           | 4 345 238           | 557 930              |
| Special                      |                     | 3 268               | (3 268)              |
|                              | <u>\$19 679 077</u> | <u>\$22 678 428</u> | <u>\$(2 999 351)</u> |
|                              |                     |                     | <u>\$119 824</u>     |

The Société records its revenue and expenditure by sector of activity, including the following:

**Head office activities**

- Management fees earned
- Interest earnings
- 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, the presidency and the vice-presidency office
- Communication expenses

**Service activities**

- Management of transportation infrastructures

**Development and investment activities**

- Mining claims management
- Management and income investments
- Recovery of certain expenses
- Gain or loss on disposal of investments
- Economic development projects
- Expenses related to the economic development and investment

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

**3. NET INCOME (LOSS) BY ACTIVITY (cont'd)****Real estate activities**

- Building operations

**Real estate, hotel and petroleum industry activities**

- Management of Auberge Radisson
- Operation of km 381 Rest Stop

**Special activities**

- Gain or loss on transfer of capital assets
- Programme d'aide aux immobilisations aéroportuaires (PAIA)

**4. SERVICE DELIVERY**

The Société provides transportation infrastructure management services as follows:

|                          | 2004                | 2003                |
|--------------------------|---------------------|---------------------|
| Related parties:         |                     |                     |
| Hydro-Québec             | \$9 923 382         | \$14 179 639        |
| Ministère des Transports | 1 172 000           | 2 161 782           |
| Other                    | 623 825             | 393 884             |
|                          | <u>\$11 719 207</u> | <u>\$16 735 305</u> |

The maintenance and operating costs for the road linking Matagami to Radisson and Chisasibi, the Transtaïga highway and the Némiscau highway (in 2003) and the La Grande-Rivière, Fontanges and Némiscau airports (in 2003) are paid by Hydro-Québec and these assets are managed by a management committee comprising Hydro-Québec and Société representatives.

**5. ACCOUNTS RECEIVABLE**

|                                 | 2004               | 2003               |
|---------------------------------|--------------------|--------------------|
| Accounts receivable:            |                    |                    |
| Hydro-Québec                    | \$2 865 288        | \$3 495 443        |
| Ministère des Transports        | 413 112            | 126 723            |
| Other                           | 1 113 253          | 1 004 910          |
|                                 | 4 391 653          | 4 627 076          |
| Allowance for doubtful accounts | (5 201)            | (19 076)           |
|                                 | <u>\$4 386 452</u> | <u>\$4 608 000</u> |

**6. INVENTORIES**

|                    | 2004             | 2003             |
|--------------------|------------------|------------------|
| Petroleum products | \$161 488        | \$141 208        |
| Other              | 62 374           | 63 967           |
|                    | <u>\$223 862</u> | <u>\$205 175</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004**7. ASSETS INTENDED FOR SALE**

On June 11, 2003, the Société adopted a sales plan for the Pierre-Radisson complex. This sales plan was modified on June 6, 2004 to add Auberge Radisson. The potential buyer, a related undertaking, is a public enterprise. Management foresees that the sales plan will be completed in its entirety by April 30, 2005.

The net value of the assets intended for sale is:

|              | <u>2004</u>        | <u>2003</u>        |
|--------------|--------------------|--------------------|
| Fixed assets | <u>\$1 513 060</u> | <u>\$1 552 262</u> |

**8. INVESTMENTS**

|                                                                           | <u>2004</u>        | <u>2003</u>         |
|---------------------------------------------------------------------------|--------------------|---------------------|
| Investment in a satellite corporation                                     | \$178 787          | \$194 600           |
| Common shares                                                             |                    |                     |
| Private corporations                                                      | 310 000            | 2 610 002           |
| Public corporations <sup>1</sup>                                          | 10 324 011         | 7 666 491           |
| Securities that are convertible into common shares                        |                    |                     |
| Debentures maturing from 2006 to 2009                                     | 1 240 000          | 790 000             |
| Loans and advances, bearing interest up to 10%<br>and maturing until 2008 | <u>467 481</u>     | <u>484 348</u>      |
|                                                                           | 12 520 279         | 11 745 441          |
| Lasting net depreciation on capital stock investments                     | <u>(3 000 000)</u> | <u>(200 002)</u>    |
|                                                                           | <u>\$9 520 279</u> | <u>\$11 545 439</u> |

<sup>1</sup> The Société holds stock purchase warrants that can be exercised by November 30, 2006.

The fair value of these shares in public corporations is established based on the closing rate the date of the financial statements. At December 31, this value broke down as follows:

|                                      | <u>2004</u>        | <u>2003</u>        |
|--------------------------------------|--------------------|--------------------|
| Common shares in public corporations | <u>\$6 348 949</u> | <u>\$8 439 023</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004**9. CAPITAL ASSETS**

|                                                                  | 2004                |                            |                          |                    |
|------------------------------------------------------------------|---------------------|----------------------------|--------------------------|--------------------|
|                                                                  | Cost                | Contributions <sup>1</sup> | 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 | 3 638 461           | 529 345                    | \$2 441 103              | 668 013            |
| Modular homes                                                    | 1 261 359           | 645 143                    | 445 309                  | 170 907            |
| Furniture and fixtures                                           | 2 216 758           | 641 238                    | 1 472 235                | 103 285            |
| Machinery and equipment                                          | 2 632 779           | 2 159 081                  | 433 251                  | 40 447             |
| Vehicles                                                         | 3 329 394           | 3 017 635                  | 278 945                  | 32 814             |
|                                                                  | <u>\$19 745 354</u> | <u>\$13 588 016</u>        | <u>\$5 070 843</u>       | <u>\$1 086 495</u> |

  

|                                                                  | 2003                |                            |                          |                    |
|------------------------------------------------------------------|---------------------|----------------------------|--------------------------|--------------------|
|                                                                  | Cost                | Contributions <sup>1</sup> | 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 | 3 707 170           | 567 618                    | \$2 349 806              | 789 746            |
| Modular homes                                                    | 1 251 149           | 645 143                    | 408 082                  | 197 924            |
| Furniture and fixtures                                           | 2 206 750           | 641 238                    | 1 414 811                | 150 701            |
| Machinery and equipment                                          | 2 564 611           | 2 131 352                  | 399 326                  | 33 933             |
| Vehicles                                                         | 3 378 685           | 3 015 449                  | 278 751                  | 84 485             |
|                                                                  | <u>\$19 774 968</u> | <u>\$13 596 374</u>        | <u>\$4 850 776</u>       | <u>\$1 327 818</u> |

1 The contributions received from the James Bay Energy Corporation, Hydro-Québec, Municipalité de Baie James and the federal government for fixed assets are posted to reduce the cost of these contributions. In 2004, the Société collected \$51 958 in contributions (2003: \$253 680).

**10. BANK BORROWING**

The Société has an authorized bank borrowing of \$4 000 000. This bank borrowing bears interest at the prime rate and is renegotiable on April 30, 2005. At December 31, 2004, the interest rate was 4.25% (2003: 4.5%).

**11. LONG-TERM DEBT**

|                                                                                                                                                                                           | 2004             | 2003             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Owed to the Financing Fund of the Gouvernement du Québec, 6.84%, guaranteed by the Minister and repayable as of 2001 in annual instalments of \$40 000 until 2006 when the balance is due | \$640 000        | \$680 000        |
| Payment due within a year                                                                                                                                                                 | <u>40 000</u>    | <u>40 000</u>    |
|                                                                                                                                                                                           | <u>\$600 000</u> | <u>\$640 000</u> |

Instalments on the long-term debt over the two coming fiscal years amount to \$40 000 in 2005 and \$600 000 in 2006.

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

**12. CAPITAL STOCK**

|                                                         | <u>2004</u>         | <u>2003</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> |

Société shares are part of the public domain and are assigned to the Minister of Finance.

**13. CASH FLOWS**

The change in non-cash elements linked to operations is as follows:

|                                           | <u>2004</u>        | <u>2003</u>      |
|-------------------------------------------|--------------------|------------------|
| Decrease in accounts receivable           | \$221 548          | \$1 388 940      |
| Increase in inventories                   | (18 687)           | (4 977)          |
| Change in prepaid expenses                | 10 417             | (11 161)         |
| Decrease in accounts payable and accruals | (209 698)          | (1 059 685)      |
| Change in withholdings on contracts       | <u>(107 066)</u>   | <u>929</u>       |
|                                           | <u>\$(103 486)</u> | <u>\$314 046</u> |

The interest paid during the year ended December 31, 2004 totalled \$81 862 (2003: \$64 150).

**14. PENSION PLAN****Plan description**

The Société offers its employees a defined-benefit retirement plan offering benefits based on years of service and average salary at career-end. The Société'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, 2002 and the next one will be produced at December 31, 2005.

The retirement charge and obligation vis-à-vis accrued benefits are established using actuarial calculations based on management's most probable hypotheses and extrapolated based on the most recent actuarial valuation.

**Total cash payments**

Total cash payments for the pension plan in 2004 comprise defined-benefit plan contributions in the amount of \$129 717 (2003: \$121 135).

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004**14. PENSION PLAN (cont'd)****Defined-benefit plan**

The following table compared the defined benefit obligation and the fair value of plan assets for fiscal years ending December 31, 2004 and December 31, 2003:

|                                            | 2004             | 2003             |
|--------------------------------------------|------------------|------------------|
| Obligation in the form of accrued benefits | \$(2 348 938)    | \$(2 044 823)    |
| Fair value of plan assets                  | 2 514 509        | 2 150 420        |
| Capitalization situation - surplus         | 165 571          | 105 597          |
| Unamortized net actuarial loss             | 20 704           | 78 089           |
| Assets in the form of accrued benefits     | <u>\$186 275</u> | <u>\$183 686</u> |

No provision was made for the net depreciation of assets in the form of accrued benefits. In fact, the Société intends to reduce its contributions for future fiscal years from these assets, thereby enabling it to very quickly absorb this benefit in coming fiscal years.

**Composition of plan assets**

| Category of assets   | 2004        | 2003        |
|----------------------|-------------|-------------|
| Debt-like securities | 47%         | 49%         |
| Debt instruments     | 53          | 50          |
| Other                | 1           | 1           |
| Total                | <u>100%</u> | <u>100%</u> |

The average weighted percentages resulting from mortgages used to determine the defined-benefit obligation au and the cost of Société benefits are as follows:

|                                         | 2004 | 2003 |
|-----------------------------------------|------|------|
| Defined-benefit obligation              |      |      |
| Actualization rate                      | 6%   | 6%   |
| Remuneration increase rate              | 4    | 4    |
| Benefit cost                            |      |      |
| Actualization rate                      | 6    | 6    |
| Rate of return foreseen for plan assets | 6    | 6    |
| Remuneration increase rate              | 4    | 4    |

Other information related to the defined-benefit plan is as follows:

|                        | 2004      | 2003      |
|------------------------|-----------|-----------|
| Charge for the year    | \$122 542 | \$124 354 |
| Employer contributions | 129 717   | 121 135   |
| Employee contributions | 62 676    | 66 430    |
| Benefits paid          | 15 437    | 15 987    |

## SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

### 15. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is equivalent to their book value, given that they mature in the near future. The following chart shows the book value and fair value of the Société's long-term financial instruments:

|                                               | 2004                     |               | 2003          |               |
|-----------------------------------------------|--------------------------|---------------|---------------|---------------|
|                                               | Book<br>value            | Fair<br>value | Book<br>value | Fair<br>value |
| Financial assets:                             |                          |               |               |               |
| Long-term investments:                        |                          |               |               |               |
| that can be estimated                         | \$7 324 011 <sup>1</sup> | \$6 348 949   | \$7 666 491   | \$8 439 023   |
| that cannot be estimated <sup>2</sup>         | 2 196 268                |               | 3 878 948     |               |
| Long-term debt (including short-term portion) | 640 000                  | 602 428       | 680 000       | 562 100       |

- 1 The category of investments whose book value is higher than the fair value, management plans to recover the book value.
- 2 The fair value of these financial instruments cannot be estimated at a reasonable cost given the lack of markets for this type of investment.

### 16. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, which are 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 either joint control or significant influence by it. The Société 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.

### 17. CONTINGENCIES

As a signatory to the James Bay and Northern Québec Agreement, the Société 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 recorded in the books in this regard.

On February 26, 1993, Ressources MSV inc. (MSV), the Société and Westminer Canada Ltd. (Westminer) signed a compensation agreement to indemnify Westminer against all future environmental claims related to a mine site. The future reclamation of the mine site 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 are 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 \$820 000. The value of the funds was \$4 372 789 at December 31, 2004. Société management believes that the funds accumulated are sufficient to proceed with restoration work to come. This agreement also states that Société may have to contribute 50% to any deficit or benefit 50% from any surplus once the restoration has been done. Moreover, when MSV shares were sold to Corporation Copper Rand inc., the latter pledged to respect MSV's commitments to pay the Société a royalty of \$0.375 per tonne of processed ore and an additional royalty of \$0.25 per tonne is the net worth per tonne is higher than \$70.

The Société owns land necessitating decontamination work in the coming fiscal years. A provision of \$271 535 was posted in 2004 and represents the total cost of work for the next three fiscal years. This work includes carrying out new tests in 2007 in order to establish the follow-up to the rehabilitation plan, if applicable.

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
December 31, 2004

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**17. CONTINGENCIES (cont'd)**

The Société has signed four agreements with Transport Canada under the Airport Infrastructure Assistance Plan for a minimum of \$3 082 242 for repairs to the La Grande-Rivière airport. These agreements terminate in 2007, 2009, 2011 and 2018 and require the Société to commit to operating the said airport for 10 to 15 years. Should it fail to comply with this condition, it will have to repay an amount defined based on the remaining duration of the agreement. As at December 31, 2004, this amount was \$1 074 733.

**18. COMMITMENTS**

After a lease ending December 31, 2005, the Société has committed to paying \$39 470.

Under an Order-in-Council of January 10, 1994, the Gouvernement du Québec transferred lands located in the James Bay territory to the Société. 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.

**19. COMPARATIVE FIGURES**

Certain 2003 figures have been reclassified to comply with the presentation adopted in 2004.



**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES****MANAGEMENTS' REPORT**

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The financial statements of the Société de développement de la Baie-James were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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. This enables it to provide reasonable assurance that assets are safeguarded and that the accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Société's financial position and operations. 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 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 Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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 his audit.

Raymond Thibault, P. Eng.  
Vice-President, Operations

Matagami, March 11, 2005

**SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES****AUDITORS' REPORT**

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To the Minister of Finance

I have audited the balance sheet of the Société de développement de la Baie-James as at December 31, 2004 and the statement of income and deficit and the statement of cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, March 11, 2005

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**  
(R.S.Q., c. S-10.002)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                                                                                          | 2005               | 2004               |
|----------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>FINANCIAL MEASURES</b>                                                                                |                    |                    |
| <b>REVENUE</b>                                                                                           |                    |                    |
| Gouvernement du Québec subsidies (Note 3)                                                                | \$43 432 891       | \$47 468 083       |
| Interest on investments and loans                                                                        | 1 642 487          | 1 737 394          |
| Gain on disposal of shares                                                                               |                    | 252 200            |
| Amounts recovered on investment and assistance repayable<br>under financial assistance programs (Note 4) | 1 505 202          | 874 234            |
| Loan guarantee fees (Note 5)                                                                             | 741 253            | 1 061 692          |
| Tax credit management fees                                                                               | 1 346 453          | 1 762 949          |
| Other revenue                                                                                            | 78 361             | 74 193             |
|                                                                                                          | <u>48 746 647</u>  | <u>53 230 745</u>  |
| <b>EXPENDITURE</b>                                                                                       |                    |                    |
| Financial assistance programs (Note 6):                                                                  |                    |                    |
| Film and television productions                                                                          | 22 905 258         | 26 751 008         |
| Variety shows and disks                                                                                  | 7 704 940          | 7 329 227          |
| Book and specialized edition                                                                             | 3 824 587          | 3 733 156          |
| Art trades                                                                                               | 2 732 994          | 2 404 701          |
| Multimedia                                                                                               |                    | 53 800             |
| International affairs                                                                                    | 2 896 939          | 3 413 917          |
|                                                                                                          | <u>40 064 718</u>  | <u>43 685 809</u>  |
| Allowance for bad debts and for losses (Note 7)                                                          | 791 401            | 1 335 480          |
| Administrative expenses (Note 8)                                                                         | 8 438 190          | 8 544 531          |
| Interest on debts                                                                                        | 165 600            | 184 252            |
|                                                                                                          | <u>49 459 909</u>  | <u>53 750 072</u>  |
| <b>LOSS FROM MANAGEMENT<br/>OF FINANCIAL MEASURES</b>                                                    | <u>(713 262)</u>   | <u>(519 327)</u>   |
| <b>IMMOVABLE CULTURAL PROPERTY</b>                                                                       |                    |                    |
| <b>REVENUE</b>                                                                                           |                    |                    |
| Gouvernement du Québec subsidies (Note 3)                                                                | 2 890 872          | 2 759 375          |
| Rent and other                                                                                           | 1 506 156          | 1 407 774          |
| Interest on short-term investments                                                                       | 20 055             | 23 787             |
|                                                                                                          | <u>4 417 083</u>   | <u>4 190 936</u>   |
| <b>EXPENDITURE</b>                                                                                       |                    |                    |
| Operating and administrative expenses (Note 9)                                                           | 3 119 413          | 2 962 270          |
| Interest on debts                                                                                        | 1 066 671          | 1 045 165          |
| Loss on disposal of an immovable                                                                         | 2 687              |                    |
|                                                                                                          | <u>4 188 771</u>   | <u>4 007 435</u>   |
| <b>GAIN (LOSS) FROM MANAGEMENT OF<br/>IMMOVABLE CULTURAL PROPERTY</b>                                    | <u>228 312</u>     | <u>183 501</u>     |
| Amounts carried forward                                                                                  | <u>\$(484 950)</u> | <u>\$(335 826)</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**REVENUE AND EXPENDITURE AND SURPLUS (cont'd)  
for the year ended March 31, 2005

|                                                                | <u>2005</u>        | <u>2004</u>        |
|----------------------------------------------------------------|--------------------|--------------------|
| Amounts brought forward                                        | <u>\$(484 950)</u> | <u>\$(335 826)</u> |
| <b>INVESTMENTS</b>                                             |                    |                    |
| Gouvernement du Québec subsidies (Note 3)                      |                    | 2 600 000          |
| Investment income (loss) from limited partnerships             | 453 682            | (13 597)           |
| Permanent loss of value on investment in a limited partnership |                    | (2 600 000)        |
| Interest costs on long-term Gouvernement du Québec advance     | <u>84 442</u>      |                    |
| <b>INVESTMENT INCOME (LOSS)</b>                                | <u>369 240</u>     | <u>(13 597)</u>    |
| <b>NET LOSS</b>                                                | (115 710)          | (349 423)          |
| <b>SURPLUS, BEGINNING OF YEAR</b>                              | <u>2 354 180</u>   | <u>2 703 603</u>   |
| <b>SURPLUS, END OF YEAR</b>                                    | <u>\$2 238 470</u> | <u>\$2 354 180</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, 2005

|                                                                                              | 2005                | 2004                |
|----------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                                |                     |                     |
| Cash on hand                                                                                 |                     | \$1 273 190         |
| Term deposits (Note 10)                                                                      | \$18 239 863        | 14 437 020          |
| Loans and other financial assistance (Note 11)                                               | 21 737 920          | 17 047 454          |
| Assistance repayable (Note 6)                                                                | 1 466 362           | 1 780 858           |
| Accounts receivable and accrued interest                                                     | 321 592             | 629 067             |
| Term notes, without interest                                                                 | 500 916             | 642 200             |
| Gouvernement du Québec subsidies receivable                                                  | 18 710 817          | 24 204 774          |
| Prepaid expenses and advances on commitments                                                 | 502 248             | 411 232             |
| Investment in limited partnerships (Note 12)                                                 | 15 830 082          | 15 376 400          |
| Fixed assets (Note 13)                                                                       | 17 076 210          | 17 653 902          |
| <b>TOTAL ASSETS</b>                                                                          | <b>\$94 386 010</b> | <b>\$93 456 097</b> |
| <b>LIABILITIES</b>                                                                           |                     |                     |
| Bank overdraft                                                                               | \$536 703           |                     |
| Bank loan (Note 14)                                                                          | 2 283 674           | \$1 974 188         |
| Accounts payable and accruals                                                                | 1 371 522           | 1 869 716           |
| Interest accrued on long-term advance from the<br>Gouvernement du Québec                     | 84 442              |                     |
| Accrued interest on long-term debts                                                          | 392 618             | 424 026             |
| Amounts payable under financial assistance programs                                          | 12 601 941          | 12 841 957          |
| Cumulated provisions for losses on loan guarantees<br>related to business financing (Note 7) | 821 916             | 1 085 919           |
| Deferred revenue (Note 15)                                                                   | 20 630 497          | 17 896 406          |
| Long-term Gouvernement du Québec advance (Note 16)                                           | 18 000 000          | 18 000 000          |
| Long-term debts (Note 17)                                                                    | 15 174 227          | 16 759 705          |
|                                                                                              | 71 897 540          | 70 851 917          |
| <b>EQUITY</b>                                                                                |                     |                     |
| Capital (Note 18)                                                                            | 19 500 000          | 19 500 000          |
| Contributed surplus (Note 19)                                                                | 750 000             | 750 000             |
| Surplus                                                                                      | 2 238 470           | 2 354 180           |
|                                                                                              | 22 488 470          | 22 604 180          |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                          | <b>\$94 386 010</b> | <b>\$93 456 097</b> |

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,  
Jean G. Chaput  
Louise L. Bérubé

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES****CASH FLOWS**

for the year ended March 31, 2005

|                                                                  | 2005               | 2004               |
|------------------------------------------------------------------|--------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                                      |                    |                    |
| Net loss                                                         | \$(115 710)        | \$(349 423)        |
| Adjustments to determine cash flow:                              |                    |                    |
| Gain on disposal of shares                                       |                    | (252 200)          |
| Bad debts related to interim financing of tax credits            | 1 272              | 101 962            |
| Provision for bad debts linked to assistance repayable           | 51 810             | (17 013)           |
| Allowance for bad debts and for losses                           | 791 401            | 1 335 480          |
| Loss on disposal of fixed assets                                 | 3 157              |                    |
| Depreciation of fixed assets                                     | 1 348 017          | 1 339 574          |
| (Revenue) loss of investment in limited partnerships             | (453 682)          | 13 597             |
| Permanent loss of value on investment in a limited partnership   |                    | 2 600 000          |
|                                                                  | <u>1 626 265</u>   | <u>4 771 977</u>   |
| Change in non-cash items related to operating activities:        |                    |                    |
| Accounts receivable and accrued interest                         | 307 475            | (162 504)          |
| Term notes                                                       | 141 284            |                    |
| Gouvernement du Québec subsidies receivable                      | 5 493 957          | (5 136 678)        |
| Prepaid expenses and advances on commitments                     | (91 016)           | 63 270             |
| Accounts payable and accruals                                    | (498 194)          | (152 951)          |
| Accrued interest on long-term Gouvernement du Québec advance     | 84 442             | (84 512)           |
| Interest accrued on the long-term debt                           | (31 408)           | 71 957             |
| Amounts to pay under financial assistance programs               | (240 016)          | 570 083            |
| Deferred revenue                                                 | 2 732 819          | 1 849 216          |
|                                                                  | <u>7 899 343</u>   | <u>(2 982 119)</u> |
| Cash flows linked at operating activities                        | <u>9 525 608</u>   | <u>1 789 858</u>   |
| <b>INVESTMENT ACTIVITIES</b>                                     |                    |                    |
| Loans and other financial assistance                             | (21 133 923)       | (13 336 410)       |
| Assistance repayable                                             | (389 085)          | (416 842)          |
| Acquisition of fixed assets                                      | (773 482)          | (1 195 018)        |
| Distribution of share in the performance of limited partnerships |                    | 72 234             |
| Repayment of loans and other financing assistance                | 15 388 053         | 15 208 648         |
| Recovery of assistance repayable                                 | 651 771            | 560 779            |
| Cash flows linked at investment activities                       | <u>(6 256 666)</u> | <u>893 391</u>     |
| Amounts carried forward                                          | <u>\$3 268 942</u> | <u>\$2 683 249</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**CASH FLOWS (cont'd)  
for the year ended March 31, 2005

|                                                        | <u>2005</u>                | <u>2004</u>                |
|--------------------------------------------------------|----------------------------|----------------------------|
| Amounts brought forward                                | <u>\$3 268 942</u>         | <u>\$2 683 249</u>         |
| <b>FINANCING ACTIVITIES</b>                            |                            |                            |
| Bank loan                                              | 309 486                    | 925 487                    |
| Long-term debt                                         |                            | 416 308                    |
| Repayment of long-term debt                            | <u>(1 585 478)</u>         | <u>(753 130)</u>           |
| Cash flows linked at financing activities              | <u>(1 275 992)</u>         | <u>588 665</u>             |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>           | 1 992 950                  | 3 271 914                  |
| <b>CASH AND CASH EQUIVALENT, BEGINNING OF YEAR</b>     | <u>15 710 210</u>          | <u>12 438 296</u>          |
| <b>CASH AND CASH EQUIVALENT, END OF YEAR</b> (Note 20) | <u><u>\$17 703 160</u></u> | <u><u>\$15 710 210</u></u> |

The notes to the financial statements are an integral of these presents.

## SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

#### 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 is not subject to income tax.

Its purpose is to promote and support, in all regions of Québec, the establishment and development of cultural enterprises, including the media, and to help improve the quality of goods and services and their competitiveness in Québec, the rest of Canada and abroad. The Société is also responsible for recognizing works as Québec cinema in accordance with 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

The financial statements of the Société were prepared in accordance with the accounting principles that are generally accepted in Canada. For this, management must make estimates and formulate hypotheses that affect the amounts presented in the financial statements. The main accounting policies adopted for the preparation of these financial statements are summarized below.

##### Loans and other financial assistance

Loans and other financial assistance include investments made by the Société under its business financing programs. These investments can take the form of stock purchases, loans or investments in projects are recorded at face value, plus interest accrued receivable, minus the cumulated provision for bad debts.

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, the recognition of interest income ceases and the Société reduces this participation by posting a cumulated provision for bad debts.

Loan guarantees appear as contingencies in the Société's financial statements. The loans resulting from the performance of loan guarantees related to an enterprise's financing are recorded to the Société's assets once the latter has approved the claim produced by the lending financial 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 the amount of the write-offs. The cumulated provision for bad debts and losses includes specific provisions and a general provision.

The specific provisions are established for each loan. The book value of a loan 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 based on past losses.

The contribution for losses represents an amount cashed to absorb potential losses resulting from the loan guarantee for business financing. Should the contingency or loan guarantee become doubtful, the contribution will be posted to results as 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.



## SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 2. MAJOR ACCOUNTING POLICIES (cont'd)

#### Assistance repayable and cumulated provision for bad debts

Assistance repayable is financial assistance linked to a predefined repayment obligation of a minimum duration of two years and generally not exceeding five years. This assistance is recorded in the balance sheet at face value minus a cumulated provision for bad debts. This cumulated provision is established by examining the probability of recovering each case of repayable assistance based on past losses. The annual variation in the cumulated provision is posted to results as program expenditures.

#### Investment in limited partnerships

The investment in a limited partnership as a limited partner is recorded at acquisition cost. When the investment suffers a lasting decline in value, the book value is reduced. This reduction is charged directly to the year-end statement.

Investment in a satellite partnership as sponsor and sponsored is recorded at consolidation value. The limited partnership is an investment corporation whose assets are recorded at fair market value.

#### Fixed assets

Fixed assets are recorded at cost and amortized over their estimated service life using 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      |

Works of art and restoration work in progress are not depreciated.

#### Deferred subsidies

Specific subsidies received for financial assistance programs and for any other project are deferred and posted to results as revenues in conjunction with related commitments.

#### Revenue

Recovery of investment and assistance repayable related to a predefined repayable obligation is posted to results when cashed or payable.

#### Financial assistance programs

Financial assistance awarded in the form of subsidies, investments and refundable aid, other than that related to a predefined repayment obligation, is posted to results as program expenditures. These costs are recorded in the fiscal year in which they are authorized and when the beneficiary has met the eligibility criteria.

When the terms and conditions governing the financial assistance are not respected, the project cancellation is recorded in the fiscal year during which the facts were disclosed.

#### Cash and cash equivalents

Cash and cash equivalents comprise bank balances and short-term investments maturing within three months of the date they were acquired.

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**2. MAJOR ACCOUNTING POLICIES (cont'd)**
**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**3. GOUVERNEMENT DU QUÉBEC SUBSIDIES**

|                                                                   | 2005                | 2004                |
|-------------------------------------------------------------------|---------------------|---------------------|
| <b>SUBSIDIES GRANTED</b>                                          |                     |                     |
| Financial measures                                                |                     |                     |
| Operations                                                        | \$2 865 300         | \$3 109 131         |
| Debt related to financial assistance programs                     | 165 600             | 184 252             |
| Financial assistance programs:                                    |                     |                     |
| Film and television productions                                   | 25 978 453          | 28 192 453          |
| Variety shows and disks                                           | 7 121 091           | 7 913 091           |
| Books and specialized edition                                     | 3 463 559           | 3 931 059           |
| Art trades                                                        | 2 708 314           | 2 460 414           |
| Multimedia                                                        |                     | 50 000              |
| International affairs                                             | 4 497 783           | 4 064 783           |
| Immovable cultural property                                       |                     |                     |
| Operations                                                        | 1 108 900           | 1 008 900           |
| Debts related to fixed assets                                     | 1 417 871           | 2 148 898           |
| Investments                                                       |                     |                     |
| Specific assistance                                               |                     | 2 600 000           |
|                                                                   | <u>49 326 871</u>   | <u>55 662 981</u>   |
| <b>SUBSIDIES BROUGHT FORWARD<br/>AT THE BEGINNING OF THE YEAR</b> |                     |                     |
| Financial measures:                                               |                     |                     |
| Financial assistance programs:                                    |                     |                     |
| Film and television productions                                   | 3 097 590           | 1 791 145           |
| Variety shows and disks                                           | 839 236             | 334 043             |
| Books and specialized edition                                     | 339 369             | (18 884)            |
| Art trades                                                        | 80 724              | 38 101              |
| Multimedia                                                        |                     | 58 837              |
| International affairs                                             | 336 704             | 53 281              |
| Immovable cultural property                                       |                     |                     |
| Debts related to immovables                                       | <u>13 008 637</u>   | <u>12 610 214</u>   |
|                                                                   | <u>17 702 260</u>   | <u>14 866 737</u>   |
| <b>SUBSIDIES BROUGHT FORWARD AT YEAR-END</b>                      |                     |                     |
| Financial measures                                                |                     |                     |
| Financial assistance programs:                                    |                     |                     |
| Film and television productions                                   | (5 950 785)         | (3 097 590)         |
| Variety shows and disks                                           | (203 156)           | (839 236)           |
| Books and specialized edition                                     | (105 041)           | (339 369)           |
| Art trades                                                        | (62 644)            | (80 724)            |
| International affairs                                             | (1 739 206)         | (336 704)           |
| Immovable cultural property                                       |                     |                     |
| Debts related to immovables                                       | <u>(12 644 536)</u> | <u>(13 008 637)</u> |
|                                                                   | <u>(20 705 368)</u> | <u>(17 702 260)</u> |
|                                                                   | <u>\$46 323 763</u> | <u>\$52 827 458</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**3. GOUVERNEMENT DU QUÉBEC SUBSIDIES (cont'd)**

The subsidies break down as follows:

|                             | 2005                | 2004                |
|-----------------------------|---------------------|---------------------|
| Financial measures          | \$43 432 891        | \$47 468 083        |
| Immovable cultural property | 2 890 872           | 2 759 375           |
| Investments                 | <u>2 600 000</u>    | <u>2 600 000</u>    |
|                             | <u>\$46 323 763</u> | <u>\$52 827 458</u> |

**4. AMOUNTS RECOVERED ON INVESTMENTS AND ASSISTANCE REPAYABLE UNDER FINANCIAL ASSISTANCE PROGRAMS**

|                                 | 2005        |                          |             | 2004      |
|---------------------------------|-------------|--------------------------|-------------|-----------|
|                                 | Investments | Assistance<br>repayable* | Total       | Total     |
| Film and television productions | \$1 047 695 | \$131 618                | \$1 179 313 | \$627 391 |
| Variety shows and disks         |             | 32 428                   | 32 428      | 41 200    |
| Books and specialized edition   |             | 3 000                    | 3 000       | 6 110     |
| Multimedia                      |             | 2 008                    | 2 008       | 42 568    |
| International affairs           |             | 288 453                  | 288 453     | 156 965   |
|                                 | \$1 047 695 | \$457 507                | \$1 505 202 | \$874 234 |

\* These recoveries come from refundable aid not associated with a pre-defined obligation to repay.

**5. LOAN GUARANTEE FEES**

|                                                         | 2005             | 2004               |
|---------------------------------------------------------|------------------|--------------------|
| Guarantee fees related to enterprise financing          | <u>\$398 515</u> | <u>\$676 413</u>   |
| Guarantee fees related to interim tax credit financing  | 276 668          | 421 711            |
| Bad debts linked to interim tax credit financing        | (1 272)          | (101 962)          |
| Deficit of fee income over operating expenses (Note 15) | <u>67 342</u>    | <u>65 530</u>      |
|                                                         | <u>342 738</u>   | <u>385 279</u>     |
|                                                         | <u>\$741 253</u> | <u>\$1 061 692</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**6. FINANCIAL ASSISTANCE PROGRAMS AND ASSISTANCE REPAYABLE**

|                                                                       | 2005                                  |                               |
|-----------------------------------------------------------------------|---------------------------------------|-------------------------------|
|                                                                       | Film and<br>television<br>productions | Variety<br>shows<br>and disks |
| EXPENDITURE – FINANCIAL ASSISTANCE PROGRAMS                           |                                       |                               |
| Investments – selective assistance                                    | \$19 880 246                          |                               |
| Investments – corporate assistance                                    | 492 877                               |                               |
| Subsidies                                                             | 2 793 492                             | \$7 755 629                   |
| Assistance repayable unrelated to predefined<br>repayment obligations | 190 000                               |                               |
| Provision for bad debts                                               |                                       | (2 232)                       |
| Cancellations and amounts recovered                                   | (973 461)                             | (57 846)                      |
| Other                                                                 | 522 104                               | 9 389                         |
|                                                                       | <u>\$22 905 258</u>                   | <u>\$7 704 940</u>            |

|                                                                                         | 2005                                  |                               |
|-----------------------------------------------------------------------------------------|---------------------------------------|-------------------------------|
|                                                                                         | Film and<br>television<br>productions | Variety<br>shows<br>and disks |
| ASSETS – ASSISTANCE REPAYABLE                                                           |                                       |                               |
| Opening balance                                                                         |                                       | \$599 958                     |
| Assistance repayable related to predefined<br>repayment obligations granted in the year |                                       | 140 000                       |
| Amounts recovered                                                                       |                                       | (107 146)                     |
| Writeoff                                                                                |                                       | 632 812                       |
|                                                                                         |                                       | <u>632 812</u>                |
| Cumulated provision for bad debts                                                       |                                       |                               |
| Closing balance                                                                         |                                       | <u>\$632 812</u>              |

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| 2005                          |                    |                       |                     | 2004                |
|-------------------------------|--------------------|-----------------------|---------------------|---------------------|
| Books and specialized edition | Art trades         | International affairs | Total               | Total               |
|                               |                    |                       | \$19 880 246        | \$22 577 708        |
|                               |                    |                       | 492 877             | 1 460 000           |
| \$3 781 372                   | \$2 705 631        | \$2 178 051           | 19 214 175          | 18 550 068          |
|                               |                    | 560 615               | 750 615             | 1 292 624           |
| 26 700                        | 1 600              | 25 742                | 51 810              | (17 013)            |
| (15 190)                      |                    | (850)                 | (1 047 347)         | (863 660)           |
| 31 705                        | 25 763             | 133 381               | 722 342             | 686 082             |
| <u>\$3 824 587</u>            | <u>\$2 732 994</u> | <u>\$2 896 939</u>    | <u>\$40 064 718</u> | <u>\$43 685 809</u> |

| 2005                          |                 |                       |                    | 2004               |
|-------------------------------|-----------------|-----------------------|--------------------|--------------------|
| Books and specialized edition | Art trades      | International affairs | Total              | Total              |
| \$589 901                     | \$127 412       | \$682 870             | \$2 000 141        | \$2 187 078        |
|                               |                 | 249 085               | 389 085            | 416 842            |
| (146 793)                     | (38 432)        | (359 400)             | (651 771)          | (560 779)          |
| (33 300)                      |                 | (78 500)              | (111 800)          | (43 000)           |
| 409 808                       | 88 980          | 494 055               | 1 625 655          | 2 000 141          |
| (67 913)                      | (4 000)         | (87 380)              | (159 293)          | (219 283)          |
| <u>\$341 895</u>              | <u>\$84 980</u> | <u>\$406 675</u>      | <u>\$1 466 362</u> | <u>\$1 780 858</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**7. CUMULATED PROVISION AND CONTRIBUTION FOR BAD DEBTS AND LOSSES**

|                                                                                      | 2005               | 2004               |
|--------------------------------------------------------------------------------------|--------------------|--------------------|
| Opening balance                                                                      | <u>\$5 729 503</u> | <u>\$4 856 424</u> |
| Write-offs during the year:                                                          |                    |                    |
| Loans granted by the Société                                                         | 47 581             | 462 401            |
| Loans resulting from the fulfilment of loan guarantees related to business financing | <u>303 581</u>     |                    |
|                                                                                      | <u>351 162</u>     | <u>462 401</u>     |
| Allowance for the year:                                                              |                    |                    |
| Loans granted by the Société                                                         | (532 350)          | 1 205 814          |
| Loans resulting from the fulfilment of loan guarantees related to business financing | 1 587 754          | 213 241            |
| Loan guarantees related to business financing                                        | <u>(264 003)</u>   | <u>(83 575)</u>    |
|                                                                                      | <u>791 401</u>     | <u>1 335 480</u>   |
| Closing balance                                                                      | <u>\$6 169 742</u> | <u>\$5 729 503</u> |

The accumulated allowance for bad debts and for losses breaks down as follows:

|                                                                                                | 2005               | 2004               |
|------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Loans granted by the Société (Note 11)                                                         | \$3 493 101        | \$4 073 032        |
| Loans resulting from the fulfilment of loan guarantees related to business financing (Note 11) | <u>1 854 725</u>   | <u>570 552</u>     |
|                                                                                                | 5 347 826          | 4 643 584          |
| Loan guarantees related to business financing *                                                | <u>821 916</u>     | <u>1 085 919</u>   |
|                                                                                                | <u>\$6 169 742</u> | <u>\$5 729 503</u> |

\* Includes the \$375 000 contribution for losses on the loan guarantee related to business financing.

**8. ADMINISTRATIVE EXPENSES**

|                                        | 2005               | 2004               |
|----------------------------------------|--------------------|--------------------|
| Salaries and fringe benefits           | \$6 666 675        | \$6 829 133        |
| Professional fees                      | 156 830            | 204 263            |
| Travel, representation and conventions | 129 684            | 96 007             |
| Rent                                   | 593 353            | 593 293            |
| Insurance                              | 32 892             | 29 700             |
| Stationery and office expenses         | 314 714            | 297 810            |
| Advertising and promotion              | 161 939            | 166 676            |
| Loss on disposal of fixed assets       | 470                |                    |
| Depreciation of fixed assets           | 295 375            | 284 104            |
| Other expenses                         | <u>86 258</u>      | <u>43 545</u>      |
|                                        | <u>\$8 438 190</u> | <u>\$8 544 531</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**9. IMMOVABLE CULTURAL PROPERTY - OPERATING AND ADMINISTRATIVE EXPENSES**

|                                            | 2005               | 2004               |
|--------------------------------------------|--------------------|--------------------|
| Salaries and fringe benefits               | \$352 074          | \$480 775          |
| Professional fees                          | 103 729            | 94 364             |
| Travelling, representation and conventions | 3 746              | 8 293              |
| Taxes                                      | 412 186            | 408 680            |
| Insurance                                  | 138 098            | 129 775            |
| Electricity and heating                    | 268 934            | 244 074            |
| Maintenance and repairs                    | 644 145            | 570 573            |
| Stationery and office expenses             | 21 891             | 32 692             |
| Depreciation of fixed assets               | 1 052 642          | 1 055 470          |
| Other expenses                             | 121 968            | (62 426)           |
|                                            | <u>\$3 119 413</u> | <u>\$2 962 270</u> |

**10. TERM DEPOSITS**

Term deposits comprise commercial promissory notes and bankers' acceptances. They are recorded at cost and bear interest at rates varying between 2.53% and 2.78%.

**11. LOANS AND OTHER FINANCIAL ASSISTANCE**

|                                                                       | 2005                | 2005                          | 2004                | 2004                |
|-----------------------------------------------------------------------|---------------------|-------------------------------|---------------------|---------------------|
|                                                                       | Amount              | Allowance for losses (Note 7) | Net amount          | Net amount          |
| Common shares with voting rights                                      | \$450 000           |                               | \$450 000           | \$450 000           |
| Loans and debentures                                                  | 16 483 654          | \$868 802                     | 15 614 852          | 14 844 459          |
| Doubtful loans and debentures                                         |                     |                               |                     |                     |
| Loans granted by the Société                                          | 3 796 071           | 2 624 299                     | 1 171 772           | 1 607 316           |
| Loans resulting from the fulfilment of guarantees related to business | 6 356 021           | 1 854 725                     | 4 501 296           | 145 679             |
|                                                                       | <u>\$27 085 746</u> | <u>\$5 347 826</u>            | <u>\$21 737 920</u> | <u>\$17 047 454</u> |

All loans awarded by the Société bear interest at a fluctuating rate. The interest rate in effect for loans at March 31, 2005, calculated using a weighted average, is 6.26%, i.e. the prime rate plus 2.01%.

These loans, apart from doubtful loans, mature during fiscal years ending March 31:

|                |                     |
|----------------|---------------------|
| 2006           | \$10 186 196        |
| 2007           | 791 832             |
| 2008           | 1 291 327           |
| 2009           | 677 035             |
| 2010           | 276 722             |
| 2011 and after | <u>2 391 740</u>    |
|                | <u>\$15 614 852</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**12. INVESTMENT IN LIMITED PARTNERSHIPS**

|                                                                                                                                                                                 | 2005                | 2004                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Participation, at devaluated cost, as a sponsor in a limited partnership whose activity is to invest in undertakings working in the field of culture.                           | \$7 400 000         | \$7 400 000         |
| Participation, at consolidation value, as a sponsor and sponsored party in a limited partnership whose activity is to offer cultural undertakings specialized financing tools*. | 8 430 082           | 7 976 400           |
|                                                                                                                                                                                 | <u>\$15 830 082</u> | <u>\$15 376 400</u> |

\* Includes realized profit of \$84 442 and unrealized profit of \$369 240.

**13. FIXED ASSETS**

|                                         | 2005                | 2005                     | 2004                |
|-----------------------------------------|---------------------|--------------------------|---------------------|
|                                         | Cost                | Accumulated depreciation | Net amount          |
| Restoration work                        | \$18 010 891        | \$4 291 483              | \$13 719 408        |
| Major repairs**                         | 3 820 934           | 1 984 752                | 1 836 182           |
| Office furniture                        | 512 756             | 285 373                  | 227 383             |
| Equipment                               | 265 368             | 202 117                  | 63 251              |
| Data processing equipment and software* | 2 296 531           | 1 342 445                | 954 086             |
| Leasehold improvements                  | 439 396             | 212 294                  | 227 102             |
| Work of art                             | 48 798              |                          | 48 798              |
| Restoration work in progress            |                     |                          |                     |
|                                         | <u>\$25 394 674</u> | <u>\$8 318 464</u>       | <u>\$17 076 210</u> |
|                                         |                     |                          | <u>\$17 653 902</u> |

\* Includes assets of \$96 469 recorded at cost and not amortized since they were not operational at March 31, 2005.

\*\* Includes assets of \$185 823 recorded at cost and not amortized since they were not operational at March 31, 2005.

**14. CREDIT LINES**

The Société has a \$2 000 000 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 that may not exceed one year.

The Société also has a \$1 390 000 credit line in capital and interest with a financial institution to do major restoration to houses belonging to its housing stock and a \$748 300 credit line in capital and interest for keeping buildings belonging to its housing stock in good condition. These credit lines are authorized by Gouvernement du Québec Orders-in-Council, are renewable annually and bear interest at the prime rate.

The Société is authorized by Québec government order-in-council to contract short-term borrowings or use its credit line for an amount not to exceed \$351 200 to keep buildings belonging to its housing stock in good condition. The borrowings may be contracted with a financial institution or the Financing Fund of the Gouvernement du Québec 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 FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**15. DEFERRED REVENUE**

|                                                                         | 2005                | 2004                |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Interim financing of tax credits (Note 25)                              |                     |                     |
| Opening balance                                                         | \$(208 668)         | \$586 878           |
| Net amount of write-offs / receipts (disbursements) on files in default | (106 833)           | (730 016)           |
| Deficiency of fee earnings over operating expenses                      | (67 342)            | (65 530)            |
| Closing balance                                                         | (382 843)           | (208 668)           |
| Deferred subsidies (Note 3)                                             | 20 705 369          | 17 702 260          |
| Other deferred revenue                                                  | 307 971             | 402 814             |
|                                                                         | <u>\$20 630 497</u> | <u>\$17 896 406</u> |

**16. LONG-TERM GOUVERNEMENT DU QUÉBEC ADVANCES**

|                                                                                                                                                                                                                                                        | 2005                | 2004                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership less the equivalent of 35% of this return, payable when the limited partnership winds up or no later than December 31, 2006.       | \$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> |

**17. LONG-TERM DEBTS**

|                                                                                                                                                                                                                                                                                                                                                                                  | 2005                | 2004                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 9.5%, repayable in annual instalments of \$339 736, until April 1, 2004 and a final instalment of \$5 435 776 on April 1, 2005 whose payment (capital and interest) is guaranteed by the Gouvernement du Québec. Borrowing refinanced on April 4, 2005.                                               | \$5 435 776         | \$5 775 512         |
| Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.77%, repayable in annual instalments of \$413 393 until February 16, 2005 and a final instalment of \$6 200 901 on February 16, 2006 whose payment (capital and interest) is guaranteed by a movable hypothec without delivery on the amount of the subsidy foreseen by the repayment of this loan. | 6 200 901           | 6 614 294           |
| Amounts carried forward                                                                                                                                                                                                                                                                                                                                                          | <u>\$11 636 677</u> | <u>\$12 389 806</u> |

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**17. LONG-TERM DEBTS (cont'd)**

|                                                                                                                                                                                                                                                                                                                                        | 2005                | 2004                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Amounts brought forward                                                                                                                                                                                                                                                                                                                | \$11 636 677        | \$12 389 806        |
| Borrowing on a note from the Financing Fund of the<br>Gouvernement du Québec, 4.654%, repayable in annual<br>instalments of \$790 718 until October 1, 2008<br>whose payment (capital and interest)<br>is guaranteed by a movable hypothec without<br>delivery on the amount of the subsidy foreseen<br>by the repayment of this loan. | 3 162 873           | 3 953 591           |
| Borrowing on a note from the Financing Fund of the<br>Gouvernement du Québec, 4.837%, repayable in annual<br>instalments of \$41 631 until October 1, 2013<br>whose payment (capital and interest)<br>is guaranteed by a movable hypothec without<br>delivery on the amount of the subsidy foreseen<br>by the repayment of this loan.  | 374 677             | 416 308             |
|                                                                                                                                                                                                                                                                                                                                        | <u>\$15 174 227</u> | <u>\$16 759 705</u> |

The amounts of capital instalments to pay on long-term debts over the next fiscal years are as follows:

|              |                     |
|--------------|---------------------|
| 2006         | \$12 469 026        |
| 2007         | 832 349             |
| 2008         | 832 349             |
| 2009         | 832 349             |
| 2010         | 41 631              |
| 2011 to 2014 | <u>166 523</u>      |
|              | <u>\$15 174 227</u> |

**18. CAPITAL**

As at March 31, 1995, the capital stock of the Société générale des industries culturelles, a government agency, became the Société's capital.

**19. CONTRIBUTED SURPLUS**

In 1998-1999, the Gouvernement du Québec paid the Société \$750 000 for awarding a loan for a specific project under the company financing program.

**20. CASH FLOWS**

- a) The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

|                       | 2005                | 2004                |
|-----------------------|---------------------|---------------------|
| Cash on hand          |                     | \$1 273 190         |
| Temporary investments | \$18 239 863        | 14 437 020          |
| Bank overdraft        | (536 703)           |                     |
|                       | <u>\$17 703 160</u> | <u>\$15 710 210</u> |

Interest paid by the Société during the fiscal year totals \$1 263 692 (2004: \$1 222 893).

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**20. CASH FLOWS (cont'd)**

- b) Investment and financing operations that involve no cash flow or movement of cash equivalents have been excluded from the cash flow statement. At March 31, 2004 the consideration other than cash received on the sale of ordinary, non-voting and participating shares (\$390 000) has been presented as short-term notes (\$642 200).

**21. FUTURE FRINGE BENEFITS**
**Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$250 728 (2004: \$236 892). The Société's liability towards this Government plan is restricted to its contributions as an employer.

**Provision for sick leave and vacation time**

|                               | 2005             |                  | 2004             |
|-------------------------------|------------------|------------------|------------------|
|                               | Sick leave       | Vacation time    | Total            |
| Opening balance               | \$125 126        | \$664 298        | \$789 424        |
| Charges for the year          | 169 066          | 521 718          | 690 784          |
| Benefits paid during the year | (180 780)        | (520 740)        | (701 520)        |
| Closing balance               | <u>\$113 412</u> | <u>\$665 276</u> | <u>\$778 688</u> |
|                               |                  |                  | <u>\$789 424</u> |

**22. FINANCIAL INSTRUMENTS**
**Credit risk**

The Société's exposure to credit risk corresponds to the book value of financial assets. The Société evaluates these assets on an ongoing basis and records a provision for losses when the accounts are deemed irrecoverable.

**Fair value of financial instruments**

The fair value of cash, short-term investments, assistance to be repaid, receivables, short-term notes, bank overdraft, bank borrowings, payables, accrued interest and amounts to be paid under financial assistance programs is equivalent to the book value, given that these are short-term elements.

In the case of variable-rate loans, the estimated fair value is presumed to correspond to the book value. For doubtful loans, the fair value corresponds to the book value given that the provision is re-evaluated on an ongoing basis.

The fair value of the \$7.4 M investment in a limited partnership, long-term Gouvernement du Québec advances and common voting and non-voting shares cannot be estimated given the lack of market for this type of financial instrument.

The fair value of Gouvernement du Québec subsidies receivable was \$18.7 M (2004: \$24.2 M).

The fair value of the long-term debts of \$15.2 M (2004: \$16.7 M) of the Financing Fund of the Gouvernement du Québec was \$15.8 M (2004: \$18.2 M) and was based on discounting cash flows at market rates for similar issues with the same remaining service life.

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**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 either joint control or significant influence by it. The Société 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.

**24. COMMITMENTS**

- a) The unpaid balance on commitments for loans as at March 31, 2005, amounts to \$7.8 million (2004: \$11.2 million).  
b) The minimum commitments under an operating lease for Société offices are as follows:

|      |                    |
|------|--------------------|
| 2006 | \$613 506          |
| 2007 | 613 506            |
| 2008 | 613 506            |
| 2009 | 613 506            |
| 2010 | 460 130            |
|      | <u>\$2 914 154</u> |

**25. CONTINGENCIES**

- a) The Société guarantees the repayment of loans or debts contracted by firms from financial institutions for business financing and for the interim funding of tax credits. The maximum amounts guaranteed are as follows:

|                                                                                                                                                                                           | <u>2005</u>         | <u>2004</u>         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Business financing*                                                                                                                                                                       | \$10 935 600        | \$21 962 295        |
| 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>14 452 277</u>   | <u>23 842 367</u>   |
|                                                                                                                                                                                           | <u>\$25 387 877</u> | <u>\$45 804 662</u> |

\* The accumulated allowance for losses on these loan guarantees is discussed in Note 7 of the financial statements.

\*\* Contingent losses on guarantees granted under this program, estimated at \$205 316, will be repaid 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.

**26. COMPARATIVE FIGURES**

Certain figures for the previous fiscal year were reclassified to comply with the presentation adopted for fiscal 2005.

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES****MANAGEMENT'S REPORT**

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The financial statements of the Société de développement des entreprises culturelles du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the 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 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. It is assisted by the audit committee, whose members are not part of management. This committee meets with management and the auditor, 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 the auditing standards that are generally accepted in Canada. 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 G. Chaput  
President

Pierre Major  
Secretary General

Montréal, June 3, 2005

**SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**

## AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the Société de développement des entreprises culturelles as at March 31, 2005 and the statement of revenue and expenditure and surplus as well as the statement of cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 3, 2005

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**  
(R.S.Q., c. S-11.03)

RESULTS AND CUMULATED SURPLUS  
for the year ended August 31

|                                                                                                      | 2004                      | 2003                      |
|------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>REVENUE</b>                                                                                       |                           |                           |
| Gouvernement du Québec operating subsidy                                                             | \$3 047 800               | \$3 158 600               |
| Other Gouvernement du Québec subsidies (Note 3)                                                      | 16 384 388                | 17 412 042                |
| Auditorium rentals                                                                                   | 3 185 710                 | 3 074 908                 |
| Ancillary operations                                                                                 | 3 590 532                 | 3 476 083                 |
| Rental of office and commercial space                                                                | 1 639 477                 | 1 567 604                 |
| Royalties and ticket revenue                                                                         | 1 556 845                 | 1 743 864                 |
| Sponsorships and publicity                                                                           | 625 201                   | 674 860                   |
| Theatrical services                                                                                  | 106 671                   | 261 522                   |
| Financial revenue                                                                                    | 116 467                   | 152 868                   |
| Other revenue                                                                                        | 796 173                   | 804 890                   |
|                                                                                                      | <u>31 049 264</u>         | <u>32 327 241</u>         |
| <b>EXPENDITURE</b>                                                                                   |                           |                           |
| Salaries and fringe benefits                                                                         | 6 334 199                 | 6 373 942                 |
| Building maintenance and repair                                                                      | 3 287 070                 | 2 976 358                 |
| Electricity and heating                                                                              | 2 131 592                 | 2 096 956                 |
| Equipment purchases, maintenance and repair                                                          | 373 835                   | 496 365                   |
| Professional services                                                                                | 384 615                   | 633 452                   |
| Communications                                                                                       | 1 022 182                 | 1 022 741                 |
| Show operating costs                                                                                 | 582 549                   | 598 910                   |
| General administration                                                                               | 230 404                   | 241 092                   |
| Insurance and taxes                                                                                  | 7 655 357                 | 7 571 335                 |
| Financial expenses                                                                                   | 4 628 551                 | 5 175 814                 |
| Depreciation of fixed assets                                                                         | 3 956 392                 | 4 654 973                 |
| Other expenses                                                                                       | 119 437                   | 202 007                   |
| Cost of customers services                                                                           | 2 282 086                 | 4 118 708                 |
|                                                                                                      | <u>32 988 269</u>         | <u>36 162 653</u>         |
| Costs recovered from customers                                                                       | <u>(2 282 086)</u>        | <u>(4 118 708)</u>        |
|                                                                                                      | <u>30 706 183</u>         | <u>32 043 945</u>         |
| <b>SURPLUS FOR THE FISCAL YEAR BEFORE<br/>NET CONTRIBUTION TO THE ARTS<br/>ACCESSIBILITY PROGRAM</b> | 343 081                   | 283 296                   |
| <b>NET CONTRIBUTION TO THE ARTS ACCESSIBILITY<br/>PROGRAM (Note 4)</b>                               | <u>(255 476)</u>          | <u>(101 729)</u>          |
| <b>SURPLUS OF THE YEAR</b>                                                                           | 87 605                    | 181 567                   |
| <b>CUMULATED SURPLUS, BEGINNING OF YEAR</b>                                                          | <u>1 271 652</u>          | <u>1 090 085</u>          |
| <b>CUMULATED SURPLUS, END OF YEAR (Note 5)</b>                                                       | <u><u>\$1 359 257</u></u> | <u><u>\$1 271 652</u></u> |

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**BALANCE SHEET  
as at August 31

|                                                                   | 2004                 | 2003                 |
|-------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                     |                      |                      |
| <b>Current assets</b>                                             |                      |                      |
| Cash on hand                                                      | \$3 615 662          | \$2 751 097          |
| Short-term investment, at cost (interest rate of 2.02%)           | 1 497 510            | 1 995 460            |
| Accounts receivable                                               | 448 840              | 1 523 182            |
| Debt receivable (Note 6)                                          | 9 089                | 8 570                |
| Gouvernement du Québec subsidies receivable (Note 7)              | 10 487 265           | 21 313 605           |
| Bar inventory                                                     | 28 320               | 51 109               |
| Deferred costs to the arts accessibility program                  | 91 991               | 17 060               |
| Prepaid expenses                                                  | 50 791               | 46 710               |
|                                                                   | <u>16 229 468</u>    | <u>27 706 793</u>    |
| <b>Funds reserved for construction and retrofitting</b>           | 293 274              | 401 120              |
| <b>Debt receivable</b> (Note 6)                                   | 88 242               | 97 331               |
| <b>Fixed assets</b> (Note 8)                                      | 64 662 537           | 66 367 986           |
| <b>Gouvernement du Québec subsidies receivable</b> (Note 7)       | 68 277 891           | 58 215 817           |
| <b>Deferred discount and issue expenses on the long-term debt</b> | 390 757              | 350 340              |
|                                                                   | <u>\$149 942 169</u> | <u>\$153 139 387</u> |
| <b>LIABILITIES</b>                                                |                      |                      |
| <b>Current liabilities</b>                                        |                      |                      |
| Deposits - Rental and ticket sales                                | \$1 799 769          | \$1 766 556          |
| Accounts payable and accruals                                     | 3 830 445            | 4 422 977            |
| Accrued interest                                                  | 1 055 591            | 1 194 466            |
| Short-term borrowings (Note 9)                                    | 7 708 665            | 5 250 422            |
| Instalments on the long-term debt (Note 10)                       | 9 315 623            | 20 054 538           |
|                                                                   | <u>23 710 093</u>    | <u>32 688 959</u>    |
| <b>Deferred Gouvernement du Québec subsidies</b> (Note 11)        | 57 523 963           | 59 254 081           |
| <b>Long-term debt</b> (Note 10)                                   | 59 740 114           | 52 315 953           |
|                                                                   | <u>140 974 170</u>   | <u>144 258 993</u>   |
| <b>EQUITY</b>                                                     |                      |                      |
| Contributed surplus (Note 12)                                     | 7 608 742            | 7 608 742            |
| Cumulated surplus (Note 5)                                        | 1 359 257            | 1 271 652            |
|                                                                   | <u>8 967 999</u>     | <u>8 880 394</u>     |
|                                                                   | <u>\$149 942 169</u> | <u>\$153 139 387</u> |
| <b>COMMITMENTS</b> (Note 16)                                      |                      |                      |
| <b>CONTINGENCIES</b> (Note 17)                                    |                      |                      |

On behalf of the Board of Directors,  
François Macerola  
E. Noël Spinelli



**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**
**CASH FLOWS**  
 for the year ended August 31

|                                                                      | 2004        | 2003        |
|----------------------------------------------------------------------|-------------|-------------|
| <b>OPERATING ACTIVITIES</b>                                          |             |             |
| Surplus of the year                                                  | \$87 605    | \$181 567   |
| Adjustments for:                                                     |             |             |
| Depreciation of fixed assets                                         | 3 956 392   | 4 654 973   |
| Amortization of deferred                                             |             |             |
| Gouvernement du Québec subsidies                                     | (4 485 209) | (5 082 777) |
| Amortization of premium, discounts and commissions on long-term debt | 76 761      | 116 162     |
|                                                                      | (364 451)   | (130 075)   |
| Change in non-cash elements of the Working Capital Fund:             |             |             |
| Accounts receivable                                                  | 1 074 342   | (199 496)   |
| Gouvernement du Québec subsidies receivable                          | 87 425      | (41 258)    |
| Bar inventory                                                        | 22 789      | (474)       |
| Claim receivable                                                     | 8 570       | (105 901)   |
| Deferred costs to the arts accessibility program                     | (74 931)    | (6 247)     |
| Prepaid expenses                                                     | (4 081)     | (6 258)     |
| Rental deposits and ticket sales                                     | 33 213      | (1 093 195) |
| Accounts payable and accruals                                        | (592 532)   | (111 426)   |
| Provision for wage equity and relativity                             |             | (455 302)   |
| Accrued interest                                                     | (138 875)   | (31 664)    |
|                                                                      | 415 920     | (2 051 221) |
| Cash flows provided by operating activities                          | 51 469      | (2 181 296) |
| <b>INVESTMENT ACTIVITIES</b>                                         |             |             |
| Acquisition of fixed assets                                          | (2 250 943) | (1 274 623) |
| Proceeds from disposal of fixed assets                               |             | 2 985       |
| Cash flows used for investment activities                            | (2 250 943) | (1 271 638) |
| <b>FINANCING ACTIVITIES</b>                                          |             |             |
| Change in funds reserved for construction and retrofitting           | 107 846     | (128 810)   |
| Decrease in long-term debt                                           | (3 431 933) | (7 146 988) |
| Short-term borrowings                                                | 2 458 243   | 2 128 729   |
| Proceeds from Gouvernement du Québec subsidies                       | 3 431 933   | 7 146 988   |
| Cash flows provided by financing activities                          | 2 566 089   | 1 999 919   |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>              | 366 615     | (1 453 015) |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING</b>                    | 4 746 557   | 6 199 572   |
| <b>CASH AND CASH EQUIVALENTS ET THE END (Note 13)</b>                | \$5 113 172 | \$4 746 557 |

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL****NOTES TO FINANCIAL STATEMENTS**

August 31, 2004

**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Société de la Place des Arts de Montréal was established under the Act respecting the Société de la Place des Arts de Montréal (R.S.Q., c. S-11.03). Its purpose is to operate an enterprise that disseminates 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. ACCOUNTING POLICIES**

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Subsidy recording**

Subsidies are recorded as products for the fiscal year in which the related charges were incurred.

Subsidies receivable related to fixed assets and their maintenance are recorded in the fiscal year in which the Société carries out the work or obtains the financing entitling it to these subsidies.

**Deferred costs to the arts accessibility program**

All deferred costs are accumulated in the balance sheet during the fiscal year in which they are incurred and are charged to results for the period the performance runs in de proportion to the performances given during the year.

**Bar inventory**

Bar inventory is valued at the lower of cost and net realizable value. Cost is calculated according to the first in, first out (FIFO) method.

**Fixed assets**

Fixed assets are valued at cost, which includes materials, direct labour, direct costs and financing costs during the work. Fixed assets are depreciated over their service life according to the straight-line method as follows:

|                                         |          |
|-----------------------------------------|----------|
| 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  |

**Deferred premium, discount and issue expenses on the long-term debt**

Premium, discount and issue expenses on the long-term debt are deferred and amortized according to the straight-line method over the remaining term of the borrowings.

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004

**2 ACCOUNTING POLICIES (cont'd)**
**Cash and cash equivalents**

Cash and cash equivalents consist of bank balances including bank overdrafts and short-term investments maturing within three months.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**3. OTHER GOUVERNEMENT DU QUÉBEC SUBSIDIES**

|                                                              | 2004                | 2003                |
|--------------------------------------------------------------|---------------------|---------------------|
| Interest on bonds and borrowings on notes                    | \$4 494 136         | \$5 004 079         |
| Compensation in lieu of taxes                                | 7 351 101           | 7 325 186           |
| Additional contribution for<br>vacation time and sick leave  | 53 942              |                     |
| Amortization of deferred<br>Gouvernement du Québec subsidies | 4 485 209           | 5 082 777           |
|                                                              | <u>\$16 384 388</u> | <u>\$17 412 042</u> |

**4. NET CONTRIBUTION TO THE ARTS ACCESSIBILITY PROGRAM**

The cumulated surplus is slated essentially for the implementation of a series of shows in partnership with guest programmers. The net to the arts accessibility program is as follows:

|                                           | 2004               | 2003               |
|-------------------------------------------|--------------------|--------------------|
| <b>Proceeds</b>                           |                    |                    |
| Ticket sales                              | \$52 377           | \$36 987           |
| Sponsorship                               | 35 493             | 30 000             |
| Revenue from ancillary services           | 2 549              | 10 481             |
|                                           | <u>90 419</u>      | <u>77 468</u>      |
| <b>Charges</b>                            |                    |                    |
| Wages and fringe benefits                 | 32 978             | 25 351             |
| Artists' honoraria                        | 80 592             | 44 303             |
| Artistic direction and programmer support | 108 222            | 55 154             |
| Research                                  | 65 662             | 27 723             |
| Animation                                 | 1 290              | 2 903              |
| Operating costs                           | 14 937             | 6 784              |
| Administrative expenses                   | 13 382             | 7 266              |
| Equipment purchase and rental             | 28 832             | 9 713              |
|                                           | <u>345 895</u>     | <u>179 197</u>     |
| <b>Net contribution</b>                   | <u>\$(255 476)</u> | <u>\$(101 729)</u> |

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004**5. CUMULATED SURPLUS**

The Société uses its cumulated surplus by investing in public development projects and diversifying its programming with a view to increasing accessibility of the arts, in conjunction with its resident organizations and other partners.

**6. DEBT RECEIVABLE**

|                                                                                                                                         | 2004            | 2003            |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Debt receivable, at the rate of 5.9% repayable in monthly payments of \$1 216, renewable in February 2005 and maturing in February 2013 | \$97 331        | \$105 901       |
| Cash receivable in the coming fiscal year                                                                                               | (9 089)         | (8 570)         |
|                                                                                                                                         | <u>\$88 242</u> | <u>\$97 331</u> |

The amount of cash receivable in the coming 5 fiscal years is as follows:

|      |         |
|------|---------|
| 2005 | \$9 089 |
| 2006 | 9 640   |
| 2007 | 10 225  |
| 2008 | 10 844  |
| 2009 | 11 502  |

**7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt and to short-term borrowings and to reimbursement of capital on the long-term debt in the next fiscal year.

The long-term portion represents the Gouvernement du Québec's total commitments for fixed assets and their maintenance minus capital repayments on the long-term debt already made and to be made in the next fiscal year.

**8. FIXED ASSETS**

|                                         | 2004                 |                          | 2003                |
|-----------------------------------------|----------------------|--------------------------|---------------------|
|                                         | Cost                 | Accumulated depreciation | Net                 |
| Land                                    | \$7 608 742          |                          | \$7 608 742         |
| Building                                | 100 939 423          | \$55 390 870             | 45 548 553          |
| Building improvements and major repairs | 67 913 396           | 58 607 652               | 9 305 744           |
| Stage equipment and accessories         | 2 277 635            | 1 634 810                | 642 825             |
| Office furniture and equipment          | 280 101              | 80 387                   | 199 714             |
| Other equipment                         | 1 039 636            | 810 706                  | 228 930             |
| Computer hardware                       | 1 978 568            | 850 539                  | 1 128 029           |
|                                         | <u>\$182 037 501</u> | <u>\$117 374 964</u>     | <u>\$64 662 537</u> |
|                                         |                      |                          | <u>\$66 367 986</u> |

## SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004**9. SHORT-TERM BORROWINGS**

The Gouvernement du Québec has authorized the Société to contract the following borrowings related to fixed assets maintenance:

|                                                                                                                                                 | 2004               | 2003               |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Term bill renewable at September 2, 2004,<br>authorized by order-in-council for a maximum of<br>\$2 553 200 bearing interest at a rate of 2.06% | \$1 785 996        | \$1 545 956        |
| Term bill renewable at September 2, 2004,<br>authorized by order-in-council for a maximum of<br>\$2 488 600 bearing interest at a rate of 2.06% | 1 981 858          | 1 241 590          |
| Term bill renewable at September 2, 2004,<br>authorized by order-in-council for a maximum of<br>\$2 833 000 bearing interest at a rate of 2.06% | 2 315 191          | 2 061 060          |
| Term bill renewable at September 2, 2004,<br>authorized by order-in-council for a maximum of<br>\$2 835 200 bearing interest at a rate of 2.06% | 1 224 351          | 401 816            |
| Term bill renewable at September 2, 2004,<br>authorized by order-in-council for a maximum of<br>\$2 843 300 bearing interest at a rate of 2.06% | 401 269            |                    |
|                                                                                                                                                 | <u>\$7 708 665</u> | <u>\$5 250 422</u> |

The maximum amount authorized by the Gouvernement du Québec for short-term borrowings related to assets maintenance is \$13 553 300.

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.

**10. LONG-TERM DEBT**

|                                                                                                                                                                                                                                   | 2004                | 2003                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Bonds guaranteed by the Gouvernement du Québec:                                                                                                                                                                                   |                     |                     |
| - 6.25% sinking fund bonds maturing June 1, 2006                                                                                                                                                                                  | \$1 584 000         | \$2 310 000         |
| - 5.75% sinking fund bonds maturing April 15, 2005                                                                                                                                                                                | 1 218 000           | 2 368 000           |
| - 12.25% series bonds maturing February 19, 2005                                                                                                                                                                                  | 2 000 000           | 2 000 000           |
| - 11.25%, maturing February 16, 2008                                                                                                                                                                                              | 1 500 000           | 1 500 000           |
|                                                                                                                                                                                                                                   | <u>6 302 000</u>    | <u>8 178 000</u>    |
| Borrowings on notes from the Financing Fund of the Gouvernement du Québec:                                                                                                                                                        |                     |                     |
| - 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, guaranteed by one moveable hypothec without delivery | 33 043 879          | 35 585 716          |
| - 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, guaranteed by one moveable hypothec without delivery    | 13 293 777          | 14 080 768          |
| - 4.515% (effective rate of 4.705%), repayable in annual principal instalments of \$483 450 up to October 1, 2007, guaranteed by one moveable hypothec without delivery                                                           | 1 933 800           | 2 417 249           |
| Amounts carried forward                                                                                                                                                                                                           | <u>\$54 573 456</u> | <u>\$60 261 733</u> |

## SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004**10. LONG-TERM DEBT** (cont'd)

|                                                                                                                                                                                                                                 | 2004                       | 2003                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Amounts brought forward                                                                                                                                                                                                         | \$54 573 456               | \$60 261 733               |
| - 5.481% (effective rate of 5.648%), repayable in annual principal instalments of \$93 451 up to October 1, 2012, guaranteed by one moveable hypothec without delivery                                                          | 841 063                    | 934 515                    |
| - 6.77% (effective rate of 6.902%), repayable in annual principal instalments of \$202 667 up to February 16, 2005 and one instalment of \$2 026 667 on February 16, 2006, guaranteed by one moveable hypothec without delivery | 2 229 333                  | 2 432 000                  |
| - 6.96% (effective rate of 6.972%), repayable in annual principal instalments of \$270 100 up to February 16, 2005 and one instalment of \$1 620 600 on February 16, 2006                                                       | 1 890 700                  | 2 160 800                  |
| - 5.673% (effective rate of 5.795%), repayable in annual principal instalments of \$506 265 up to April 11, 2005 and one instalment of \$5 568 913 on April 11, 2006, guaranteed by one moveable hypothec without delivery      | 6 075 178                  | 6 581 443                  |
| - 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$88 625 up to October 1, 2013, guaranteed by one moveable hypothec without delivery                                                          | 886 252                    |                            |
| - 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$255 975 up to October 1, 2013, guaranteed by one moveable hypothec without delivery                                                         | 2 559 755                  |                            |
|                                                                                                                                                                                                                                 | <u>69 055 737</u>          | <u>72 370 491</u>          |
| Payments due in the next fiscal year                                                                                                                                                                                            | <u>9 315 623</u>           | <u>20 054 538</u>          |
|                                                                                                                                                                                                                                 | <u><u>\$59 740 114</u></u> | <u><u>\$52 315 953</u></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:

|      |             |
|------|-------------|
| 2005 | \$9 315 623 |
| 2006 | 14 380 771  |
| 2007 | 4 349 591   |
| 2008 | 5 849 591   |
| 2009 | 3 866 141   |

**11. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES**

|                                                                                 | 2004                       | 2003                       |
|---------------------------------------------------------------------------------|----------------------------|----------------------------|
| Opening balance                                                                 | \$59 254 081               | \$63 002 637               |
| Gouvernement du Québec commitments regarding fixed assets and their maintenance | 2 637 912                  | 1 316 802                  |
| Premium on long-term debt issue                                                 | 117 179                    | 17 419                     |
| Amortization of deferred subsidies                                              | <u>(4 485 209)</u>         | <u>(5 082 777)</u>         |
| Closing balance                                                                 | <u><u>\$57 523 963</u></u> | <u><u>\$59 254 081</u></u> |

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004**12. CONTRIBUTED SURPLUS**

This item corresponds to property costs.

**13. CASH FLOWS**

Cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

|                                                         | 2004               | 2003               |
|---------------------------------------------------------|--------------------|--------------------|
| Cash on hand                                            | \$3 615 662        | \$2 751 097        |
| Short-term investment, at cost (interest rate of 2.02%) | 1 497 510          | 1 995 460          |
|                                                         | <u>\$5 113 172</u> | <u>\$4 746 557</u> |

Interest paid to the Société during the year amounts to \$4 690 663 (2003: \$5 091 317).

**14. 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 either joint control or significant influence by it. The Société did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. The Société has commercial rental income of a \$732 744 (2003: \$718 376) with a related company. These transactions are not shown separately in the financial statements.

**15. FUTURE FRINGE BENEFITS****Pension plans**

Some of the staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (RRPE) or Upper Management Retirement Plan (RRAS). These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

Other Société staff members, namely, stagehands and dressers, contribute to two defined-benefit plans.

The Société's contributions charged to the year-end statement amount to \$249 432 (2003: \$396 688). The Société's liability towards these Government plans is restricted to its contributions as an employer

**Provision for sick leave and vacation time included in accounts payable and accrued liability**

|                               | 2004             |                  |                  | 2003             |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | Sick leave       | Vacation leave   | Total            | Total            |
| Opening balance               | \$222 124        | \$276 835        | \$498 959        | \$370 210        |
| Charge for the year           | 179 959          | 350 188          | 530 147          | 760 769          |
| Benefits paid during the year | (200 557)        | (332 003)        | (532 560)        | (632 020)        |
| Closing balance               | <u>\$201 526</u> | <u>\$295 020</u> | <u>\$496 546</u> | <u>\$498 959</u> |

**16. COMMITMENTS**

The Société is committed to long-term contracts for goods and services, maturing on various dates up to May 31, 2017 and to construction work on fixed assets.

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004

**16. COMMITMENTS (cont'd)**

Minimum future payments are as follows:

|                     |                    |
|---------------------|--------------------|
| 2005                | \$900 537          |
| 2006                | 183 177            |
| 2007                | 191 448            |
| 2008                | 174 683            |
| 2009                | 68 961             |
| 2010 and thereafter | 110 210            |
|                     | <u>\$1 629 016</u> |

**17. CONTINGENCIES**

In a ruling dated August 24, 2001, the labour commissioner granted 100 of the 102 grievances submitted by stage technicians and ordered the Société to pay compensation equalling the wages and other fringe benefits lost in their dismissals between November 11, 1999 and January 31, 2001. On September 7, 2001, the Société appealed this ruling before the Labour Court. No provision was included in the financial statements. Management estimates that no amounts are owing to grievants.

The Société is also party to various claims and legal proceedings that have cropped up in the normal course of business.

The Société is not able to predict the outcome of these disputes. To the extent that it can be determined, these financial statements include provisions to this effect.

**18. FINANCIAL INSTRUMENTS****FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term debt**

At August 31, 2004, the fair value of the long-term debt of \$69 055 737 (2003: \$72 370 491) was \$73 494 082 (2003: \$77 027 723), given the discounting of cash flows at the market rate for securities of a similar nature as to their maturity date and interest rate.

The fair value of short-term borrowings at August 31, 2004 in the amount of \$7 708 665 (2003: \$5 250 422) corresponds to the book value of these securities, given their short renewal deadline.

The fair value of Gouvernement du Québec subsidies receivable in the amount of \$78 765 156 (2003: \$79 524 422) is \$83 203 502 (2003: \$84 186 653).

**Other assets and liabilities**

The fair value of the cash, short-term investment, accounts receivable, prepaid expenses, deposits – rentals and ticket sales and suppliers and accrued expenses is equal to their book value, given that they mature in the near future.



**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL****MANAGEMENT'S REPORT**

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The financial statements of the Société de la Place des Arts de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 audit committee, whose members are not management. This committee meets with management and the auditor, 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 the auditing standards that are generally accepted in Canada. 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

André Huberdeau, MBA  
Director Administration

Montréal, November 5, 2004

**SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Société de la Place des Arts de Montréal as at August 31, 2004 and the statements of results and cumulated surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, November 5, 2004

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**  
(R.S.Q., c. S-11.011)

REVENUE AND EXPENDITURE  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                                                           | <u>2004</u>            |
|-------------------------------------------------------------------------------------------|------------------------|
| <b>REVENUE</b>                                                                            |                        |
| Fees collected on vehicle registration and driver's licence transactions                  | 92 829                 |
| Gouvernement du Québec contribution for funding road checks                               | 55 086                 |
| Gouvernement du Québec contribution for funding programs for handicapped persons (Note 5) | 9 817                  |
| Fees collected for management of unpaid fines (Note 6)                                    | 3 454                  |
| Other                                                                                     | <u>2 374</u>           |
|                                                                                           | <u>163 560</u>         |
| <b>EXPENDITURE</b>                                                                        |                        |
| Administrative expenses (Note 3)                                                          | 167 944                |
| Amortization (Note 4)                                                                     | 23 951                 |
| Programs for handicapped persons (Note 5)                                                 | 9 817                  |
| Management of unpaid fines (Note 6)                                                       | 3 454                  |
| Contribution to funding of an agency (Note 7)                                             | <u>444</u>             |
|                                                                                           | <u>205 610</u>         |
| <b>DEFICIT REVENUE OVER EXPENDITURE</b>                                                   | <u><u>(42 050)</u></u> |

CUMULATED DEFICIT  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                            | <u>2004</u>            |
|------------------------------------------------------------|------------------------|
| <b>OPENING BALANCE</b>                                     | (387 626)              |
| Transfer to the Insurance Fund at January 1, 2004 (Note 1) | <u>403 756</u>         |
|                                                            | 16 130                 |
| Deficit of revenue over expenditure                        | <u>(42 050)</u>        |
| <b>CLOSING BALANCE</b>                                     | <u><u>(25 920)</u></u> |

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

**BALANCE SHEET**  
as at December 31, 2004  
(in thousands of dollars)

|                                                                             | <u>2004</u>     |
|-----------------------------------------------------------------------------|-----------------|
| <b>ASSETS</b>                                                               |                 |
| Cash on hand                                                                | 7 004           |
| Accounts receivable                                                         | 11 614          |
| Insurance Fund receivable                                                   | 205 052         |
| Fixed assets (Note 8)                                                       | 36 397          |
| Intangible assets (Note 9)                                                  | <u>82 416</u>   |
|                                                                             | <u>342 483</u>  |
| <b>LIABILITIES AND CUMULATED DEFICIT</b>                                    |                 |
| <b>LIABILITIES</b>                                                          |                 |
| Line of credit with the Caisse de dépôt et placement<br>du Québec (Note 10) | 146 367         |
| Accounts payable and accruals                                               |                 |
| Gouvernement du Québec                                                      | 126 680         |
| Other                                                                       | 36 962          |
| Allowance for sick leave and vacation time (Note 11)                        | <u>58 394</u>   |
|                                                                             | <u>368 403</u>  |
| <b>CUMULATED DEFICIT</b>                                                    | <u>(25 920)</u> |
|                                                                             | <u>342 483</u>  |
| <b>COMMITMENTS (Note 13)</b>                                                |                 |
| <b>CONTINGENCIES (Note 14)</b>                                              |                 |

On behalf of the Board of Directors,  
John Harbour, FCA  
President and Chief Executive Officer

Serge Rémillard, FCMA, MBA  
Administrator

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**
**CASH FLOWS**

as at December 31, 2004

(in thousands of dollars)

|                                                                          | 2004      |
|--------------------------------------------------------------------------|-----------|
| <b>OPERATING ACTIVITIES</b>                                              |           |
| Fees collected on vehicle registration and driver's licence transactions | 92 830    |
| Gouvernement du Québec contribution for funding road checks received     | 51 654    |
| Other income collected                                                   | 2 422     |
| Administrative expenses paid by the Société                              | (276 548) |
| Administrative expenses reimbursed by the Insurance Fund                 | 117 848   |
| Programs for handicapped persons paid                                    | (9 635)   |
| Fees paid for the management of unpaid fines                             | (3 072)   |
|                                                                          | (24 501)  |
| Trusteeship for the Insurance Fund                                       |           |
| Contributions – vehicle registration                                     |           |
| Collected for the Insurance Fund                                         | 549 505   |
| Remitted to the Insurance Fund                                           | (549 505) |
| Contributions – drivers' licences                                        |           |
| Collected for the Insurance Fund                                         | 126 604   |
| Remitted to the Insurance Fund                                           | (126 604) |
| Net investment income                                                    |           |
| Current revenues                                                         |           |
| Collected for the Insurance Fund                                         | 246 797   |
| Remitted to the Insurance Fund                                           | (246 797) |
| Gains (losses) on investment in the Caisse                               |           |
| Collected for the Insurance Fund                                         | 94 799    |
| Remitted to the Insurance Fund                                           | (94 799)  |
| Interest                                                                 |           |
| Paid for the Insurance Fund                                              | (963)     |
| Reimbursed by the Insurance Fund                                         | 963       |
| Proceeds from the disposal of participation deposit units                |           |
| Collected for the Insurance Fund                                         | 225 000   |
| Remitted to the Insurance Fund                                           | (225 000) |
| Mandates conferred by the Gouvernement du Québec                         |           |
| Registration and driver's licence fees                                   |           |
| Collected for the Gouvernement du Québec                                 | 765 895   |
| Remitted to the Gouvernement du Québec                                   | (726 356) |
| Collected for other governments                                          | 36 680    |
| Remitted to other governments                                            | (37 365)  |
| Taxes                                                                    |           |
| Collected for the Gouvernement du Québec                                 | 784 053   |
| Remitted to the Gouvernement du Québec                                   | (785 700) |
| Motorists' contribution to mass transit                                  |           |
| Collected for the Gouvernement du Québec                                 | 66 660    |
| Remitted to the Gouvernement du Québec                                   | (67 123)  |
| Parking stickers                                                         |           |
| Collected for the Gouvernement du Québec                                 | 573       |
|                                                                          | 37 317    |
| Cash flows related to operating activities                               |           |
| (Amounts carried forward)                                                | 12 816    |

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

CASH FLOWS (cont'd)  
as at December 31, 2004  
(in thousands of dollars)

|                                                                         | <u>2004</u>             |
|-------------------------------------------------------------------------|-------------------------|
| Cash flows related to operating activities<br>(Amounts brought forward) | <u>12 816</u>           |
| <b>INVESTMENT ACTIVITIES</b>                                            |                         |
| Disbursement for acquisition of fixed assets                            | (15 030)                |
| Proceeds from the disposal of fixed assets                              | 88                      |
| Disbursement for acquisition of intangible assets                       | <u>(23 720)</u>         |
| Cash flows related to investment activities                             | <u>(38 662)</u>         |
| <b>FINANCING ACTIVITIES</b>                                             |                         |
| Advances to Insurance Fund                                              | <u>(104 335)</u>        |
| Cash flows related to financing activities                              | <u>(104 335)</u>        |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                            | (130 181)               |
| <b>OPENING INSUFFICIENCY OF CASH AND CASH EQUIVALENTS</b>               | <u>(9 182)</u>          |
| <b>CLOSING INSUFFICIENCY OF CASH AND CASH EQUIVALENTS</b> (Note 12)     | <u><u>(139 363)</u></u> |

## SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

(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:

- act as a trustee to administer the Québec Automobile Insurance Fund (Insurance Fund);
 

The Insurance Fund is a social utility trust within the meaning of the Québec Civil Code, which was created on January 1, 2004 through the transfer of the Société's assets and whose funds are slated for compensation for bodily damages as stipulated in the Automobile Insurance Act, for the material damages provided for in Title IV of this Act and for highway safety promotion and the related prevention.
- administer the Highway Safety Code, 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:
    - of the Highway Safety Code;
    - the legislative or regulatory 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 Title VIII.2 of 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.

##### **Collection powers**

The Société collects:

- the duties, fees, insurance contributions and the contributions of motorists to public transit with respect to vehicle registration;
- the duties, fees, and insurance contributions with respect to permit issues.

Section 23.0.7 of the Act respecting the Société de l'assurance automobile du Québec, introduced by section 13 of the Act to amend the Act respecting the Société de l'assurance automobile du Québec and other legislative provisions (S.Q. 2004, c. 34), states that the Société must regularly transfer to the Insurance Fund any amounts it collects as insurance contributions in keeping with sections 21, 31.1, 69 and 93.1 of the Highway Safety Code or as amounts recovered through application of the Automobile Insurance Act and any other amount designed to increase the Insurance Fund.

##### **Elements transferred to the Insurance Fund as January 1, 2004**

In keeping with section 23.0.1 of the Act respecting the Société de l'assurance automobile du Québec, introduced by section 13 of the Act to amend the Act respecting the Société de l'assurance automobile du Québec, The Government transferred to the Insurance Fund all amounts in the Société's possession at December 31, 2003, including the securities held with the Caisse de dépôt et placement du Québec, except for amounts held by the Société as deposits on this date in keeping with the laws it administers.

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**1. CONSTITUTION AND PURPOSE (cont'd)****Elements transferred to the Insurance Fund as January 1, 2004 (cont'd)**

The Société's recoverable accounts at December 31, 2003 under the Automobile Insurance Act and the advances made at this time by the Société to rehabilitation centres are the only debts and advances transferred to the Insurance Fund. The Government also transferred to the Insurance Fund the property deeds for the building housing its head office.

Further, under section 23.0.2 of this Act (S.Q., c. S-11.0.11), the Insurance Fund takes over the Société's debts at December 31, 2003, with the exception of the provision for sick leave and vacation time for Société staff, amounts owing to suppliers and amounts owing to the Government in taxes or fees.

The elements transferred at book value break down as follows:

**BALANCE SHEET**

|                                                                             | As at<br>January 1 <sup>st</sup><br>2004 |
|-----------------------------------------------------------------------------|------------------------------------------|
| <b>ASSETS</b>                                                               |                                          |
| Cash on hand                                                                | 1 375                                    |
| Accounts receivable                                                         | 7 155                                    |
| Accrued investment income                                                   | 8 579                                    |
| Fund entrusted to the Caisse de dépôt et placement du Québec                | 7 048 830                                |
| Fixed assets                                                                | 42 715                                   |
|                                                                             | <u>7 108 654</u>                         |
| <b>LIABILITIES CUMULATED DEFICIT</b>                                        |                                          |
| <b>LIABILITIES</b>                                                          |                                          |
| Line of credit with the Caisse de dépôt et placement<br>du Québec (Note 10) | 181 410                                  |
| Accounts payable – Gouvernement du Québec                                   | 106 635                                  |
| Société receivables                                                         | 103 305                                  |
| Deferred contributions                                                      | 323 123                                  |
| Obligations to accident victims – Actuarial liabilities                     | 6 365 122                                |
|                                                                             | <u>7 079 595</u>                         |
| Deferred investment income                                                  | 340 200                                  |
| Deferred gains and (losses on the assumption of the<br>real rate of return) | 92 615                                   |
|                                                                             | <u>7 512 410</u>                         |
| <b>CUMULATED DEFICIT</b>                                                    | <u>(403 756)</u>                         |
|                                                                             | <u>7 108 654</u>                         |



**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**1. CONSTITUTION AND PURPOSE (cont'd)****Trustee mandate**

The Société administers the Insurance Fund as a trustee. This Fund is not consolidated with the Société as it constitutes separate funding under section 23.0.3 of the act respecting the Société de l'assurance automobile du Québec (R.S.Q., c. S-11.011).

To report on the Insurance Fund, the following chart presents a summary of the amounts administered by the Insurance Fund at December 31, 2004.

**BALANCE SHEET**

|                                                              | As at<br>December 31<br>2004 |
|--------------------------------------------------------------|------------------------------|
| <b>ASSETS</b>                                                |                              |
| Fund entrusted to the Caisse de dépôt et placement du Québec | 6 853 125                    |
| Other assets                                                 | <u>90 025</u>                |
|                                                              | <u><u>6 943 150</u></u>      |
| <b>LIABILITIES</b>                                           |                              |
| Obligations to accident victims – Actuarial liabilities      | 6 989 048                    |
| Other liabilities                                            | <u>571 022</u>               |
|                                                              | 7 560 070                    |
| <b>CUMULATED DEFICIT</b>                                     | <u>(616 920)</u>             |
|                                                              | <u><u>6 943 150</u></u>      |

**2. ACCOUNTING POLICIES**

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**a) Financial instruments**

Cash, accounts receivable, amounts receivable from the Insurance Fund, the credit line, receivables and accrued expenses are recorded at fair value, which is equivalent to their book value given that they mature in the near future.

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**2. ACCOUNTING POLICIES (cont'd)****b) Fixed assets**

Fixed assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

|                                                  | <u>Method</u>                | <u>Useful life</u> |
|--------------------------------------------------|------------------------------|--------------------|
| Buildings                                        | Straight-line                | 40 years           |
| Head Office furnishings                          | Straight-line                | 10 years           |
| 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    |
| Highway control stations:                        |                              |                    |
| Buildings                                        | Straight-line                | 10 years           |
| Site development                                 | Straight-line                | 10 years           |
| Equipment                                        | Summary-of-the-years' digits | Maximum 10 years   |

**c) Intangible assets**

Intangible assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

|                              | <u>Method</u> | <u>Useful life</u> |
|------------------------------|---------------|--------------------|
| Computer systems development | Straight-line | Maximum 7 years    |
| Application software         | Straight-line | Maximum 5 years    |

**d) Pension plans**

Société employees contribute to Gouvernement du Québec interenterprise defined-benefit plans. The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans. Since the Société lacks sufficient information to use the accounting procedure the defined-benefits plans, it uses the accounting procedure for defined-condition plans.

**e) Cash and cash equivalents**

The Société's policy consists in presenting under cash and cash equivalents bank balances, including bank overdrafts whose balances often fluctuate between overdraft and available, and the line of credit used to cover monthly cash shortages.

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**3. ADMINISTRATIVE EXPENSES**

|                                                                              | 2004                |                                        | 2003           |
|------------------------------------------------------------------------------|---------------------|----------------------------------------|----------------|
|                                                                              | Société<br>and Fund | Attributed to<br>the Insurance<br>Fund | Total          |
| Salaries and fringe benefits                                                 | 142 349             | (73 421)                               | 105 577        |
| Travelling expenses                                                          | 2 130               | (1 095)                                | 2 377          |
| Agents' remuneration                                                         | 16 514              | (3 039)                                | 13 475         |
| Administrative and professional services                                     | 17 454              | (8 094)                                | 12 330         |
| Communications                                                               | 9 541               | (3 501)                                | 8 331          |
| Information and advertising                                                  | 4 338               | (4 241)                                | 296            |
| Furniture, fixtures and equipment                                            | 770                 | (93)                                   | 1 493          |
| Maintenance                                                                  | 1 048               | (388)                                  | 2 968          |
| Rent, taxes and electricity                                                  | 7 330               | (2 198)                                | 7 127          |
| Data processing and office automation<br>equipment                           | 1 036               | (553)                                  | 982            |
| Rental and maintenance of data processing<br>and office automation equipment | 11 157              | (4 237)                                | 9 506          |
| Printing, supplies and other expenses                                        | 11 121              | (3 993)                                | 9 158          |
| Société fixed asset user fees                                                |                     | (8 629)                                | (8 629)        |
| Insurance Fund head office operating costs<br>and parking expenses           | 4 366               | (4 366)                                |                |
| Insurance Fund head office user fees                                         | 2 349               |                                        | 2 953          |
|                                                                              | <u>231 503</u>      | <u>(117 848)</u>                       | <u>167 944</u> |

The administrative expenses are paid by the Société and then divided between the Société and the Insurance Fund using activity management.

Société head office user fees are invoiced on a prorated basis according to the surface area used.

Administrative fees related to programs for handicapped persons and management of unpaid fines are detailed respectively in notes 5 and 6.

**4. AMORTIZATION**

|                                   | 2004          |               |
|-----------------------------------|---------------|---------------|
|                                   | Société       | Total         |
| Amortization of fixed assets      | 5 884         | 8 830         |
| Amortization of intangible assets | 13 778        | 15 121        |
|                                   | <u>19 662</u> | <u>23 951</u> |

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**5. PROGRAMS FOR HANDICAPPED PERSONS**

|                                   | 2004         |
|-----------------------------------|--------------|
| Vehicle adaptation                |              |
| Subsidies                         | 7 999        |
| Administrative costs              | 435          |
| Head office user fees             | 26           |
| Amortization of fixed assets      | 9            |
| Amortization of intangible assets | 10           |
|                                   | <u>8 479</u> |
| Parking stickers                  |              |
| Administrative costs              | 1 166        |
| Head office user fees             | 13           |
| Amortization of fixed assets      | 45           |
| Amortization of intangible assets | 114          |
|                                   | <u>1 338</u> |
|                                   | <u>9 817</u> |

The vehicle adaptation program is entrusted to the Société under an agreement with the Ministère des Transports, in keeping with section 16.4 of the Act respecting the Société de l'assurance automobile du Québec (S.Q., c. S-11.011), introduced by section 10 of the Act to amend the Act respecting the Société de l'assurance automobile du Québec and other legislative provisions (S.Q. 2004, c. 34). The issuing of parking stickers for these persons is provided for under section 11 of the Highway Safety Code (R.S.Q., c. C-24.2).

Funding for the vehicle adaptation program and parking sticker issuing is defined in an agreement between the Société and the Ministère des Transports. This agreement is in the process of being signed.

**6. MANAGEMENT OF UNPAID FINES**

|                                   | 2004         |
|-----------------------------------|--------------|
| Administrative fees               | 2 987        |
| Head office user fees             | 85           |
| Amortization of fixed assets      | 90           |
| Amortization of intangible assets | 292          |
|                                   | <u>3 454</u> |

Section 194 of the Highway Safety Code stipulates that the Société shall limit persons' or vehicles' road access when collectors (section 364 of the Code of Penal Procedure (c. C-25.1), primarily municipalities, inform the Société that the defendant has failed to pay unpaid fines.

Funding for the collection of unpaid fines is based on the provisions of sections 621 and 648.2 of the Highway Safety Code (R.S.Q., c. C-24.2) and the Regulation respecting rates for the application of section 194 of the Highway Safety Code (O.C. 414-2004).

**7. CONTRIBUTION TO FUNDING OF AN AGENCY**

The contribution to funding the Tribunal administratif du Québec is provided for in section 97 of the Act respecting administrative justice (R.S.Q., c. J-3). An annual Order-in-Council sets each organization's share.

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**8. FIXED ASSETS**

|                                                  | 2004           |                          |                  |
|--------------------------------------------------|----------------|--------------------------|------------------|
|                                                  | Cost           | Accumulated depreciation | Unamortized cost |
| Land                                             | 1 637          |                          | 1 637            |
| Buildings                                        | 3 717          | 1 508                    | 2 209            |
| Head office furnishings                          | 11 212         | 11 212                   |                  |
| Equipment                                        | 4 802          | 3 341                    | 1 461            |
| Automotive equipment                             | 11 383         | 5 443                    | 5 940            |
| Photography stations                             | 12 180         | 12 078                   | 102              |
| Data processing equipment and operating software | 57 800         | 40 803                   | 16 997           |
| Highway carried monitoring weigh station         | 11 561         | 3 510                    | 8 051            |
|                                                  | <u>114 292</u> | <u>77 895</u>            | <u>36 397</u>    |

**9. INTANGIBLE**

|                                           | 2004           |                          |                  |
|-------------------------------------------|----------------|--------------------------|------------------|
|                                           | Cost           | Accumulated depreciation | Unamortized cost |
| Application software                      | 2 407          | 796                      | 1 611            |
| Computer systems development <sup>1</sup> | 126 947        | 46 142                   | 80 805           |
|                                           | <u>129 354</u> | <u>46 938</u>            | <u>82 416</u>    |

1 Computer systems development worth \$13 439 000 was under way at December 31, 2004 and was not amortized.

**10. LINE OF CREDIT WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**

The Société obtained a \$200-million line of credit with the Caisse to offset monthly cash shortages. It bears interest based on the rate yielded by the demand deposit account set daily plus 0.05%. The interest rate was 2.57% at December 31, 2004. This credit line expires on December 31, 2005.

**11. ALLOWANCE FOR SICK LEAVE AND VACATION TIME**

|                               | 2004          |               |               |
|-------------------------------|---------------|---------------|---------------|
|                               | Sick leave    | Vacation time | Total         |
| Opening balance               | 39 275        | 16 530        | 55 805        |
| Plus                          |               |               |               |
| Charge for the year           | 9 671         | 15 740        | 25 411        |
| Less                          |               |               |               |
| Benefits paid during the year | 8 429         | 14 393        | 22 822        |
| Closing balance               | <u>40 517</u> | <u>17 877</u> | <u>58 394</u> |

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2004

(in thousands of dollars)

**12. CASH FLOWS**

Cash and cash equivalents shown in the cash flow statement include the following items in the balance sheet:

|                                                                   | <u>2004</u>             |
|-------------------------------------------------------------------|-------------------------|
| Cash on hand                                                      | 7 004                   |
| Line of credit with the Caisse de dépôt et placement<br>du Québec | <u>(146 367)</u>        |
| Deficiency in cash and cash equivalents                           | <u><u>(139 363)</u></u> |

During the year, the Société disbursed \$15 647 000 for the acquisition of fixed assets and \$23 103 000 for intangible assets. It posted losses of \$31 000 on the disposal of fixed assets and \$390 000 for intangible assets. At December 31, 2004, the accounts payable and accrued expenses related to fixed assets and intangible assets totalled \$1 234 559.

**13. COMMITMENTS****Rental contracts**

As at December 31, 2004, the minimum contractual commitments for office space are as follows:

|                      |                      |
|----------------------|----------------------|
| 2005                 | 7 165                |
| 2006                 | 6 073                |
| 2007                 | 3 708                |
| 2008                 | 3 112                |
| 2009                 | 2 306                |
| 2010 and there after | <u>4 485</u>         |
|                      | <u><u>26 849</u></u> |

**Contracts for computer and other services**

The Société is committed under various contracts for computer and other services for an amount estimated at \$40 540 000 on December 31, 2004. These contracts span a maximum period of five years and are as follows:

|      |                      |
|------|----------------------|
| 2005 | 31 813               |
| 2006 | 6 701                |
| 2007 | 1 442                |
| 2008 | 338                  |
| 2009 | <u>246</u>           |
|      | <u><u>40 540</u></u> |

**14. 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, 2004.

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2004

(in thousands of dollars)

**15. PENSION PLANS**

The employees of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP). Interenterprise plans are defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$5 380 000. The Société's liability towards these Government plans is restricted to its contributions as an employer.

**16. RELATED PARTY TRANSACTIONS**

The Société is a related party to the Insurance Fund and has not concluded any commercial transaction with it other than in the normal course of its activities and at the usual commercial conditions. Recorded at exchange value, these related party transactions are presented in the body of the financial statements.

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société transacts with 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 Société 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.

**17. COMPARATIVE FINANCIAL STATEMENTS**

The Société's financial statements for the previous fiscal year are not presented for comparative purposes given the major changes to its financial structure. These changes result from the creation of the Insurance Fund at January 1, 2004, in keeping with sections 23.0.1 and following of the Act respecting the Société de l'assurance automobile du Québec, introduced by section 13 of the Act to amend the Act respecting the Société de l'assurance automobile du Québec.

**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**

## MANAGEMENT'S REPORT

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The financial statements of the Société de l'assurance automobile du Québec (Société) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements. Management carries out 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 oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, reviews 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 the auditing standards that are generally accepted in Canada. 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.

John Harbour, FCA  
President and Chief Executive Officer

Claire Monette  
Vice-President, Administration and  
Finance

Québec, March 29, 2005



**SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Société de l'assurance automobile du Québec (Société) as at December 31, 2004 and the statements of revenue and expenditure, the cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, March 29, 2005

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**  
(R.S.Q., c. S-13)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS  
fiscal year ended March 26, 2005  
(in thousands of dollars)

|                                                                                                                | 2005      | 2004      |
|----------------------------------------------------------------------------------------------------------------|-----------|-----------|
| <b>GROSS SALES</b> (Note 6)                                                                                    | 2 544 715 | 2 653 024 |
| Taxes, duties, discounts and others (Note 6)                                                                   | 557 811   | 582 948   |
| <b>NET SALES</b> (Note 6)                                                                                      | 1 986 904 | 2 070 076 |
| <b>OPERATING EXPENSES</b>                                                                                      |           |           |
| Cost of products sold (Note 6)                                                                                 | 991 397   | 1 053 159 |
| Selling and marketing, distribution and administrative expenses                                                | 392 630   | 396 008   |
|                                                                                                                | 1 384 027 | 1 449 167 |
| <b>EARNINGS BEFORE FINANCING EXPENSES,<br/>DEPRECIATION, OTHER INCOME (EXPENSE)<br/>AND INCOME TAX EXPENSE</b> | 602 877   | 620 909   |
| <b>FINANCING EXPENSES AND DEPRECIATION</b>                                                                     |           |           |
| Financing expenses (Note 7)                                                                                    | 7 798     | 8 301     |
| Depreciation of fixed assets                                                                                   | 48 444    | 40 251    |
| Depreciation of the building rented under a capital lease                                                      | 407       | 407       |
| Depreciation of other assets                                                                                   | 245       | 245       |
|                                                                                                                | 56 894    | 49 204    |
| <b>EARNINGS BEFORE OTHER INCOME<br/>(EXPENSE) AND INCOME TAX EXPENSE</b>                                       | 545 983   | 571 705   |
| <b>OTHER INCOME (EXPENSE)</b>                                                                                  |           |           |
| Share in the earnings of a company subject to significant influence                                            | (462)     | (1 188)   |
| Amortization of the deferred gain on the disposal of assets to a joint venture                                 | 270       | 270       |
| Minority interest in the earnings of the subsidiary of a joint venture                                         | (8)       |           |
|                                                                                                                | (200)     | (918)     |
| <b>EARNINGS BEFORE INCOME TAX EXPENSE</b>                                                                      | 545 783   | 570 787   |
| <b>INCOME TAX EXPENSE</b>                                                                                      |           |           |
| Current                                                                                                        | 18        |           |
| Future                                                                                                         | 14        |           |
|                                                                                                                | 32        |           |
| <b>NET EARNINGS</b>                                                                                            | 545 751   | 570 787   |
| <b>RETAINED EARNINGS AT BEGINNING OF YEAR</b>                                                                  | 4 860     | 4 073     |
| <b>DIVIDEND</b>                                                                                                | (545 000) | (570 000) |
| <b>RETAINED EARNINGS AT END OF YEAR</b>                                                                        | 5 611     | 4 860     |

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

## SOCIÉTÉ DES ALCOOLS DU QUÉBEC

## CONSOLIDATED BALANCE SHEET

March 26, 2005

(in thousands of dollars)

|                                                                                     | 2005           | 2004           |
|-------------------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                                       |                |                |
| <b>Current assets</b>                                                               |                |                |
| Cash and short-term investments (Note 20)                                           | 46 282         | 8 460          |
| Accounts receivable (Note 8)                                                        | 59 219         | 99 772         |
| Inventory (Note 9)                                                                  | 249 967        | 290 941        |
| Prepaid expenses                                                                    | 16 772         | 13 493         |
|                                                                                     | <u>372 240</u> | <u>412 666</u> |
| <b>Debentures, 8.66%, maturing July 1, 2009</b>                                     | 2 000          | 2 500          |
| <b>Interest in a company subject to significant influence</b>                       |                | 1 698          |
| <b>Fixed assets</b> (Note 10)                                                       | 290 472        | 308 382        |
| <b>Building rented under a capital lease</b> (Note 11)                              | 4 884          | 5 291          |
| <b>Other assets</b> (Note 12)                                                       | <u>13 235</u>  | <u>12 062</u>  |
|                                                                                     | <u>682 831</u> | <u>742 599</u> |
| <b>LIABILITIES</b>                                                                  |                |                |
| <b>Current liabilities</b>                                                          |                |                |
| Overdrafts and bank loans (Note 13)                                                 | 267 930        | 367 427        |
| Suppliers and other creditors (Note 14)                                             | 266 817        | 210 087        |
| Dividend                                                                            | 65 000         | 78 000         |
|                                                                                     | <u>599 747</u> | <u>655 514</u> |
| <b>Debentures, 8.66%, maturing July 1, 2009</b> (Note 15)                           | 2 000          | 2 500          |
| <b>Capital lease obligation</b> (Note 16)                                           | 7 996          | 8 883          |
| <b>Deferred gain on disposal of the assets to a joint venture</b> (Note 17)         | 3 757          | 4 027          |
| <b>Accrued benefit liability – cumulative sick leave credits</b> (Note 18)          | 32 752         | 36 085         |
| <b>Accrued benefit liability – retirement plan</b> (Note 18)                        | 900            | 730            |
| <b>Future income taxes payable by the subsidiary of a joint venture</b>             | 40             |                |
| <b>Minority interest in the equity capital of the subsidiary of a joint venture</b> | <u>28</u>      | <u></u>        |
|                                                                                     | <u>647 220</u> | <u>707 739</u> |
| <b>CAPITAL</b>                                                                      |                |                |
| <b>Equity / Share capital</b>                                                       |                |                |
| Authorized, issued and paid:                                                        |                |                |
| 300 000 shares valued at \$100 each                                                 | 30 000         | 30 000         |
| <b>Retained earnings</b>                                                            | <u>5 611</u>   | <u>4 860</u>   |
|                                                                                     | <u>35 611</u>  | <u>34 860</u>  |
|                                                                                     | <u>682 831</u> | <u>742 599</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,  
Raymond Boucher, Chairman the Board  
Chantal Bélanger, President of the Audit Administrative Committee

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****CONSOLIDATED CASH FLOWS**

fiscal year ended March 26, 2005

(in thousands of dollars)

|                                                                                             | 2005      | 2004      |
|---------------------------------------------------------------------------------------------|-----------|-----------|
| <b>OPERATING ACTIVITIES</b>                                                                 |           |           |
| Net earnings                                                                                | 545 751   | 570 787   |
| Non-cash items:                                                                             |           |           |
| Depreciation                                                                                | 49 096    | 40 903    |
| Loss on sale of fixed assets                                                                | 196       | 345       |
| Share in the earnings of a company subject to significant influence                         | 462       | 1 188     |
| Amortization of the deferred gain on the disposal of assets to a joint venture              | (270)     | (270)     |
| Minority interest in the earnings of the subsidiary of a joint venture                      | 8         |           |
| Future income taxes                                                                         | 14        |           |
| Expenses relating to sick leave credits                                                     | (369)     | 7 252     |
| Expenses relating to the retirement plan                                                    | 170       |           |
|                                                                                             | 595 058   | 620 205   |
| Net change in non-cash items of working capital (Note 20)                                   | 135 439   | (91 784)  |
| Use of cumulative sick leave credits                                                        | (2 964)   | (4 633)   |
| Cumulated sick leave credits transferred to employees' registered retirement saving plans   |           | (501)     |
| Cash flows provided from operating activities                                               | 727 533   | 523 287   |
| <b>INVESTMENT ACTIVITIES</b>                                                                |           |           |
| Business acquisition (Note 5)                                                               | (1 458)   |           |
| Acquisition of additional interest in the company subject to significant interest (Note 17) | (400)     |           |
| Debentures receivable                                                                       | 500       | 2 500     |
| Acquisition of fixed assets                                                                 | (32 183)  | (57 409)  |
| Sale of fixed assets                                                                        | 2 712     | 149       |
| Other assets                                                                                | (90)      | 126       |
| Cash flows used for investment activities                                                   | (30 919)  | (54 634)  |
| <b>FINANCING ACTIVITIES</b>                                                                 |           |           |
| Variation in bank loans                                                                     | (44 570)  | 90 000    |
| Debentures payable                                                                          | (500)     | (2 500)   |
| Reimbursement of the capital lease obligation                                               | (795)     | (712)     |
| Dividend                                                                                    | (558 000) | (606 000) |
| Cash flows used for financing activities                                                    | (603 865) | (519 212) |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                 | 92 749    | (50 559)  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                       | (46 467)  | 4 092     |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 20)</b>                                   | 46 282    | (46 467)  |

The accompanying notes are an integral part of the consolidated financial statements

## SOCIÉTÉ DES ALCOOLS DU QUÉBEC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 26, 2005

(in thousands of dollars)

#### 1. STATUTES

The Société des alcools du Québec (the SAQ) is constituted under the Act respecting the Société des alcools du Québec (R.S.Q., c. S-13).

#### 2. FISCAL YEAR

The SAQ's fiscal year ends on the last Saturday in the month of March. Consequently, the fiscal years ended March 26, 2005 and March 27, 2004, each consist of 52 weeks of operations.

#### 3. CHANGE TO ACCOUNTING POLICIES

##### Fiscal year ended March 26, 2005

##### *Revenue recognition*

In December 2003, the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) published the Abstract of Issues Discussed no. 141 (EIC-141), entitled "Revenue Recognition", which provides interpretative guidance on the application of Section 3400 of the CICA Handbook entitled "Revenue". Specifically, EIC-141 states the criteria to be respected in order that the recognition of revenue be deemed to have occurred. The SAQ applied the guidelines of EIC-141 prospectively as of March 28, 2004, and their application had no major impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

##### *Hedging Relationships*

In December 2001, the CICA published Accounting Guideline AcG-13, "Hedging Relationships", and in June 2002, EIC-128, "Accounting for Trading Speculative or Non-Hedging Derivative Financial Instruments". AcG-13 deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying the principles of hedge accounting. Under these guidelines, the information relating to hedging relationships must be documented, and the effectiveness of the hedge must be demonstrated and documented. If the criteria of AcG-13 are not complied with, the derivative instrument must be recognized in accordance with the guidelines of EIC-128. EIC-128 stipulates that a derivative instrument that does not meet the conditions of hedge accounting outlined in AcG-13 must be recognized in the balance sheet at fair value, and that the variations in the fair value must be recognized in the income statement for the fiscal year. The SAQ adopted the recommendations of AcG-13 and EIC-128 at the start of the fiscal year and concluded that its forward exchange contract did not meet the hedge accounting conditions outlined in AcG-13. Consequently, the SAQ recognizes its forward exchange contracts at fair value. The fair value is re-evaluated each quarter and a gain or loss is recognized in the consolidated income statement. For the fiscal year ended March 26, 2005, the sum of approximately \$100 000 is included in the operating expenses, representing the fair value of the out-of-the-money forward exchange contracts at the end of the fiscal year.

##### *Employee future benefits*

In January 2004, the CICA modified the recommendations contained in Section 3461 of the CICA Handbook, entitled "Employee Future Benefits". Section 3461 requires additional disclosures about the assets, cash flows and net periodic benefit cost of defined benefit pension plans and other employee future benefit plans. These recommendations have no impact on the measurement of these plans. The SAQ adopted the new recommendations during the fiscal year, and the additional required information is presented in note 18.

##### *Retirement Obligations*

In March 2003, the CICA published Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations", the recommendations of which were applied by the SAQ at the start of the fiscal year. The Section establishes the standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. It applies to the legal obligations related to the retirement of long-term intangible assets resulting from acquisitions, construction,

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**3. CHANGE TO ACCOUNTING POLICIES (cont'd)****Fiscal year ended March 26, 2005 (cont'd)*****Retirement Obligations (cont'd)***

layout or regular operations. The new recommendations stipulate that the fair value of a liability be recognized with respect to the obligations related to asset retirement during the fiscal year in which the obligations occur, if a reasonable estimate of the fair value can be established. Thereafter, the asset retirement costs must be expensed using a rational and systematic method over the useful life of the assets. After having reviewed the leases of its outlets, the SAQ concluded that the adoption of these new recommendations had no impact on the consolidated financial statements of the fiscal year ended March 26, 2005.

***Impairment of long-lived assets***

In December 2002, the CICA published Section 3063 of the CICA Handbook, entitled "Impairment of Long-Lived Assets". These recommendations provide accounting guidance for the recognition, measurement and disclosure of impairment of long-lived assets, including property, plant and equipment and intangible assets with finite useful lives. They require the recognition of an impairment loss for a long-lived asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted future cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value. The application of the recommendations of this section at the start of the fiscal year had no major impact on the consolidated financial statements for the fiscal year ended March 26, 2005.

**Fiscal year ended March 27, 2004*****Consolidated goodwill***

At the start of the fiscal year, the SAQ prospectively adopted the new CICA recommendations relating to consolidated goodwill. According to the new recommendations, the consolidated goodwill presented in the balance sheet is no longer amortized, but rather, are subjected to an impairment test annually or more frequently if events or situations occur which indicate that it might be impaired. When the new recommendations were adopted, the SAQ performed the first step of the consolidated goodwill impairment test and determined that it had not been subject to impairment.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The critical accounting policies applied in the preparation of the consolidated financial statements are summarized below.

**Scope of consolidation**

The consolidated financial statements include the accounts of the SAQ and the proportionate ownership of the asset and liability items, the revenues and expenses of Maison des Futailles, SEC, a joint venture in which the SAQ has a 50% interest. This interest is recognized using the proportionate consolidation method. During the fiscal year, the SAQ acquired an additional interest of 5% in Société d'investissement M.-S., SEC, bringing its total interest in this joint venture to 50%. The SAQ's interest in Société d'investissement M.-S., SEC was recognized on an equity basis up to the acquisition date, after which, interest in the Société d'investissement M.-S., SEC was recognized using the proportionate consolidation method.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that SAQ management make use of estimates and assumptions that affect the reported amounts of the assets and liabilities, the disclosure of contingent asset and liability at the date of the financial statements, and liabilities, the disclosure of contingent asset as well as the revenues and expenses recognized during the fiscal year. Actual results could differ from those estimates.

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Revenue recognition**

Sales to consumers, agencies, license holders, authorized distributors and brewers and beer distributors are recognized when transacted, i.e. at the time the products are delivered to the customers, less discounts and returns; and, specifically with respect to license holders, authorized distributors, brewers and beer distributors, when there is persuasive evidence that an agreement exists, that the amounts are or can be determined, and that collection is reasonably assured.

**Conversion of foreign currency**

Monetary items are translated at the exchange rate in effect at the balance sheet date, whereas non-monetary items are translated at the rate in effect on the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated at the average rate for the fiscal year. The foreign exchange gains and losses are included in the fiscal year's income statements. Exchange losses amounting to \$300 000 and \$1.5 million are included in the 2005 and 2004 income statements, respectively.

**Derivative instruments**

The SAQ partially manages its foreign exchange risk on the expected foreign currency outflow through the use of forward exchange contracts. However, these forward exchange contracts do not meet the hedge accounting conditions prescribed by Canadian generally accepted accounting principles. Consequently, the SAQ recognizes its forward exchange contracts at their fair value, and the resulting gains and losses are included in the operating expenses. While these forward exchange contracts fail to meet the hedge accounting conditions, the SAQ believes that, from the perspective of operations and cash flows, these contracts enable it to minimize the potential negative effects of a drop in the Canadian dollar on foreign exchange markets. The SAQ does not use forward exchange contracts for speculative purposes.

**Income taxes**

The SAQ is a public corporation of the Government of Quebec and, as such, is not subject to income taxes.

The income taxes presented in the consolidated financial statements are related to the SAQ's interest, recognized in accordance with the proportionate consolidation method, in the accounts of Maison des Futailles, SEC, a joint venture which itself owns a share in an incorporated subsidiary that is subject to income taxes. These income taxes are recognized in accordance with the liability method. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, short-term investments with maturities of less than three months, and bank overdrafts.

**Inventory**

Inventory is valued at the lower of cost or net realizable value, the cost being established according to the first in, first out method.

**Fixed assets**

Fixed assets are stated at cost and depreciated over their estimated useful life. Depreciation is calculated using the straight-line method, except in the case of rolling stock acquired before March 28, 1999, where the diminishing balance method is used. The following annual rates are used:

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 26, 2005

(in thousands of dollars)

**4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Fixed assets (cont'd)**

|                         |                                                                        |
|-------------------------|------------------------------------------------------------------------|
| Buildings               | 2.5% and 10%                                                           |
| Furniture and equipment | Rate varying between 2.8% and 50%                                      |
| Rolling stock           | Rate varying between 10% and 30%                                       |
| Leasehold improvements  | According to the duration of the leases, which vary from 5 to 15 years |
| Paving and parking      | 8%                                                                     |

**Building rented under a capital lease**

A building rented under a capital lease is stated at cost, which is the present value of the minimum payments stated in the lease. Depreciation on the building is calculated using the straight-line method at the annual rate of 2.5%.

**Other assets**

The other assets, recognized at cost, include the SAQ's share of goodwill as well as of the organization charges of Maison des Futailles, SEC, and the goodwill of Société d'investissement M.-S., SEC. Goodwill is not amortized, but tested annually or more frequently if events or changes in circumstances indicate that they might be impaired. All goodwill items are related to operating units, and any possible impairment is detected by comparing the book value of the operating units to their fair value. If possible impairment is noted, it is quantified by comparing the book value of the goodwill with its fair value; a loss in value must be recognized in the income statements for an amount equal to the excess. The fair value of operating units is estimated based on current cash flows.

Organization charges are amortized using the straight-line method over a period of seven years.

**Depreciation of long-lived assets**

Long-term assets are subjected to a recoverability test when events or changes in circumstance indicate that their carrying value may not be recoverable. A loss in value is recognized when the carrying value exceeds the undiscounted cash flows resulting from their use or eventual disposal. The impairment loss is measured as being the amount by which the asset's carrying value exceeds its fair value.

**Employee benefits plans***Cumulative sick leave credits*

The SAQ administers a defined benefit pension plan that guarantees most of its employees the payment of sick leave credits. The cost of the future benefits as a payment of sick leave credits earned by SAQ employees participating in the plan is established using actuarial calculations by projecting the costs on a prorata basis for the number of years of service, and charged to the income statement as employees render the service. These actuarial calculations take into account the most likely assumptions established by the management with respect to the progression of salaries, 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 forecast amount of cumulative sick leave credits on the average residual duration of activity of the unit of active employees participating in the plan. The average residual activity duration of the group of employees covered by the cumulative sick leave credit plan was 17 years at March 26, 2005 and at March 27, 2004.

*Retirement plans*

SAQ employees participate in retirement plans for government employees and public organizations. These plans, which are administered by the Commission administrative des regimes de retraite et d'assurances (CARRA), are defined benefit programs which provide retirement and death benefits. Defined contribution plan accounting is applied to these plans. Moreover, the SAQ administers a supplemental retirement pension plan for senior management. This is a defined benefit pension plan that also includes retirement and death benefits. The actuarial valuation of the liability with respect to the accrued pension benefits in



**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**
**Employee benefits plans (cont'd)**
*Retirement plans (cont'd)*

relation to the retirement contributions is established using the cost method projected on a prorata basis according to the years of service. The evaluation was carried out using management's best estimate of the future changes in salary levels, retirement age and other actuarial factors. The excess of net year-to-date actuarial gains (net year-to-date actuarial losses) on 10% of the obligation with respect to the contributions recognized is amortized over the average remaining service life of the active employee group covered by the plans. The average residual activity duration of active employees covered by the supplemental retirement plan was 6.6 years on March 26, 2005 and on March 27, 2004.

**5. BUSINESS ACQUISITION**

On June 30, 2004, the joint venture Maison des Futailles, SEC acquired 90% of the common shares and 100% of the outstanding preferred shares of Clos Saint-Denis Inc., a producer, bottler and distributor of alcoholic beverages. The total consideration of \$3.0 million in cash was paid.

The transaction was accounted for by the purchase method. The acquisition cost was itemized into the acquired assets and the assumed liabilities at their estimated fair value on the date of the transaction. The final distribution of the acquisition cost should be established as soon as the management of the joint venture gathers all important information deemed necessary to complete the distribution.

The operating results of Clos Saint-Denis Inc. are included in the joint venture's consolidated income statement as of July 1, 2004.

The values attributed to the net assets acquired in this transaction are as follows:

|                                          |              |
|------------------------------------------|--------------|
| Cash                                     | 75           |
| Working capital                          | 103          |
| Fixed assets                             | 773          |
| Consolidated goodwill                    | 2 131        |
| Future income tax liability              | (51)         |
| Share of the non-controlling shareholder | (40)         |
| Net assets acquired                      | <u>2 991</u> |
| Consideration paid in cash               | 2 991        |
| Cash acquired                            | <u>(75)</u>  |
| Net amount paid                          | <u>2 916</u> |
| SAQ's proportionate ownership            | <u>1 458</u> |

Following the end of the fiscal year, the joint venture purchased the non-controlling shareholder's remaining interest of 10% in Clos Saint-Denis Inc. for a cash consideration of \$200 000, thereby securing full ownership of the subsidiary.

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 26, 2005

(in thousands of dollars)

**6. NET SALES AND COST OF PRODUCTS SOLD**

|                                                  | Store units<br>and<br>specialized<br>outlets | Whole-<br>salers-<br>grocers | Subtotal  | Brewers<br>and beer<br>distributors <sup>1</sup> | Total     |           |
|--------------------------------------------------|----------------------------------------------|------------------------------|-----------|--------------------------------------------------|-----------|-----------|
|                                                  |                                              |                              |           |                                                  | 2005      | 2004      |
| Gross sales                                      | 1 908 988                                    | 428 739                      | 2 337 727 | 206 988                                          | 2 544 715 | 2 653 024 |
| Less :                                           |                                              |                              |           |                                                  |           |           |
| - Provincial sales tax                           | 129 116                                      | 26 413                       | 155 529   | 13 528                                           | 169 057   | 179 553   |
| - License holder fees <sup>(2)</sup>             | 12 128                                       |                              | 12 128    |                                                  | 12 128    | 25 809    |
| - Specific tax                                   | 67 682                                       | 31 021                       | 98 703    |                                                  | 98 703    | 100 858   |
| - Specific license holder<br>tax <sup>(2)</sup>  | 32 995                                       |                              | 32 995    |                                                  | 32 995    | 19 565    |
| - Federal goods and<br>services tax              | 112 740                                      | 23 040                       | 135 780   | 11 810                                           | 147 590   | 156 706   |
| - Discounts and returns                          | 37 435                                       |                              | 37 435    |                                                  | 37 435    | 51 510    |
| - Compensation to agents                         | 6 740                                        |                              | 6 740     |                                                  | 6 740     | 4 172     |
| - Compensation to<br>wholesalers-grocers         |                                              | 47 882                       | 47 882    |                                                  | 47 882    | 39 560    |
| - Contributions to the<br>Environmental Fund     | 2 465                                        | 710                          | 3 175     |                                                  | 3 175     | 3 029     |
| - Contributions to the<br>Fonds Éduc'alcool inc. | 1 707                                        | 399                          | 2 106     |                                                  | 2 106     | 2 186     |
|                                                  | 403 008                                      | 129 465                      | 532 473   | 25 338                                           | 557 811   | 582 948   |
| Net sales                                        | 1 505 980                                    | 299 274                      | 1 805 254 | 181 650                                          | 1 986 904 | 2 070 076 |
| Cost of products sold                            | 663 272                                      | 146 475                      | 809 747   | 181 650                                          | 991 397   | 1 053 159 |

1 Holders of a brewer's license and holders of a beer distributor's license sell and deliver, within 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.

2 The fee paid by license holders was replaced on September 1, 2004, by a specific tax pursuant to the changes made to the Licenses Act and the Act respecting the Quebec sales tax.

**7. FINANCING EXPENSES**

|                                                                   | 2005    | 2004    |
|-------------------------------------------------------------------|---------|---------|
| Interest on bank loans                                            | 4 169   | 4 034   |
| Interest on term loans made to a business under<br>shared control | 3 772   | 4 573   |
| Interest on debentures payable                                    | 227     | 450     |
| Interest relating to the capital lease obligation                 | 1 025   | 1 108   |
|                                                                   | 9 193   | 10 165  |
| Less : Interest on investments, terms deposits and other          | (1 168) | (1 414) |
| Interest on debentures receivable                                 | (227)   | (450)   |
|                                                                   | (1 395) | (1 864) |
|                                                                   | 7 798   | 8 301   |

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**8. ACCOUNTS RECEIVABLE**

|                                                                     | 2005          | 2004          |
|---------------------------------------------------------------------|---------------|---------------|
| Wholesalers-grocers                                                 | 20 183        | 32 703        |
| Licensed establishments, institutions and other commercial accounts | 38 451        | 66 569        |
| Short-term portion of debentures receivable                         | 500           | 500           |
| Income taxes receivable from the subsidiary of a joint venture      | 85            |               |
|                                                                     | <u>59 219</u> | <u>99 772</u> |

**9. INVENTORY**

|                                            | 2005           | 2004           |
|--------------------------------------------|----------------|----------------|
| Bottled beverages                          | 240 515        | 282 100        |
| Beverages in bulk and production materials | 8 093          | 6 872          |
| Miscellaneous supplies                     | 1 359          | 1 969          |
|                                            | <u>249 967</u> | <u>290 941</u> |

**10. FIXED ASSETS**

|                         | 2005           |                          | 2004           |
|-------------------------|----------------|--------------------------|----------------|
|                         | Cost           | Accumulated amortization | Net value      |
| Land                    | 11 108         |                          | 11 108         |
| Buildings               | 110 836        | 21 400                   | 89 436         |
| Furniture and equipment | 307 644        | 150 367                  | 157 277        |
| Rolling stock           | 14 805         | 7 162                    | 7 643          |
| Leasehold improvements  | 44 515         | 20 319                   | 24 196         |
| Paving and parking      | 3 221          | 2 409                    | 812            |
|                         | <u>492 129</u> | <u>201 657</u>           | <u>290 472</u> |
|                         |                |                          | <u>308 382</u> |

**11. BUILDING RENTED UNDER A CAPITAL LEASE**

|          | 2005          |                          | 2004         |
|----------|---------------|--------------------------|--------------|
|          | Cost          | Accumulated amortization | Net value    |
| Building | 16 280        | 11 396                   | 4 884        |
|          | <u>16 280</u> | <u>11 396</u>            | <u>5 291</u> |

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**12. OTHER ASSETS**

|                       | 2005          |                             |               | 2004          |
|-----------------------|---------------|-----------------------------|---------------|---------------|
|                       | Cost          | Accumulated<br>amortization | Net value     | Net value     |
| Consolidated goodwill | 14 874        | 2 486                       | 12 388        | 11 060        |
| Organization charges  | 1 664         | 1 392                       | 272           | 517           |
| Other                 | 575           |                             | 575           | 485           |
|                       | <u>17 113</u> | <u>3 878</u>                | <u>13 235</u> | <u>12 062</u> |

**13. OVERDRAFTS AND BANK LOANS**

|            | 2005           | 2004           |
|------------|----------------|----------------|
| Overdrafts |                | 54 927         |
| Term loans | <u>267 930</u> | <u>312 500</u> |
|            | <u>267 930</u> | <u>367 427</u> |

The SAQ is authorized by the Government of Quebec and by the SAQ's Board of Directors to obtain term loans that do not exceed one year, as long as the total sum of its loans do not exceed \$400 million. As of March 26, 2005, bank loans consisted of 7 term loans, including 3 loans totalling \$106.6 million to a business under shared control (5 at March 27, 2004, including 3 loans totalling \$201.5 million to a business under shared control). These loans bear interest at rates ranging from 2.55% to 2.57% (2.30% in 2004) and mature in 9 days or less (6 days or less in 2004).

Moreover, an SAQ joint venture has at its disposal an operating credit of up to \$5 million (in 2005 and 2004), which is guaranteed by a general movable hypothec on the whole of its accounts receivable and inventory, bears interest at the preferential rate and is renewable annually.

**14. SUPPLIERS AND CREDITORS**

|                                                                              | 2005           | 2004           |
|------------------------------------------------------------------------------|----------------|----------------|
| Suppliers                                                                    | 146 840        | 131 687        |
| Government taxes and fees                                                    | 67 126         | 41 320         |
| Salaries and benefits                                                        | 51 464         | 35 785         |
| Short-term portion of debentures payable and of the capital lease obligation | <u>1 387</u>   | <u>1 295</u>   |
|                                                                              | <u>266 817</u> | <u>210 087</u> |

**15. DEBENTURES**

This sum represents the SAQ's interest in the debentures of a joint venture in the amount of \$10 million (\$12 million in 2004). These debentures are reimbursable in three annual payments of \$2 million and one final payment of \$4 million on July 1, 2009. The SAQ's share of these payment amounts is \$500,000 and \$1 million, respectively.

In the event of a default, the SAQ has the right to convert any portion of the principal and interest accrued to a number of shares in the joint venture, equal to the amount of the converted debentures divided by the book value of one share at the time of conversion.

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**16. CAPITAL LEASE OBLIGATION**

|                                                                                                                                                                                                                  | <u>2005</u>         | <u>2004</u>         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Liability resulting from the rental of a building,<br>repayable until April 11, 2012, in monthly payments<br>of \$150 000, including interest calculated at an<br>annual rate of 11%, capitalized semi-annually. | 8 883               | 9 678               |
| Less: Portion of the liability due within one year                                                                                                                                                               | <u>(887)</u>        | <u>(795)</u>        |
|                                                                                                                                                                                                                  | <u><u>7 996</u></u> | <u><u>8 883</u></u> |

Payments in each of the following fiscal years:

|             | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>         |
|-------------|---------------------|---------------------|----------------------|
| 2006        | 887                 | 933                 | 1 820                |
| 2007        | 989                 | 831                 | 1 820                |
| 2008        | 1 104               | 716                 | 1 820                |
| 2009        | 1 231               | 589                 | 1 820                |
| 2010        | 1 374               | 446                 | 1 820                |
| 2011 - 2012 | <u>3 298</u>        | <u>397</u>          | <u>3 695</u>         |
|             | <u><u>8 883</u></u> | <u><u>3 912</u></u> | <u><u>12 795</u></u> |

**17. INTERESTS IN JOINT VENTURE****Maison des Futailles, SEC**

On May 31, 1999, the SAQ, the Fonds de solidarité des travailleurs du Québec, Les Vins Andrès du Québec Ltée and 9072-3479 Québec inc. merged their respective business activities, consisting in the bottling and marketing of certain wines and spirits, to constitute Maison des Futailles, SEC, a joint venture in which the SAQ acquired a 35% interest. The reported gain from this transaction was \$3.8 million at March 26, 2005 (\$4.0 million at March 27, 2004), and is amortized over 20 years. On April 1, 2001, the SAQ and the Fonds de solidarité des travailleurs du Québec acquired the shares held by Les Vins Andrès du Québec Ltée and 9072-3479 Québec inc., thereby increasing the SAQ's share in the joint venture to 50%.

**Société d'investissement M.-S., SEC**

On October 31, 2004, the SAQ acquired from J.F. Hillebrand an additional interest of 5% in Société d'investissement M.-S., SEC for a cash consideration of \$400,000, thereby increasing the SAQ's interest in Société d'investissement M.-S., SEC to 50% and making it a joint venture of the SAQ. The SAQ's interest in this joint venture was recognized on an equity basis up to the date of acquisition, and an expense of \$500,000 was recognized in the combined statement of income and retained earnings as an interest in the earnings of a business subject to significant influence.

As of November 1, 2004, the proportionate method of consolidation was used to recognize the SAQ's interest in Société d'investissement M.-S., SEC. Thus, the share in the revenue and expenses of Société d'investissement M.-S., SEC is included in the combined statement of income and retained earnings.

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 26, 2005

(in thousands of dollars)

**17. INTERESTS IN A JOINT VENTURE (cont'd)**

The following amounts represent the SAQ's interest in the joint ventures, including the revenues, expenses and inter-corporate accounts that were eliminated upon consolidation.

|                                                                        | 2005                | 2004                |
|------------------------------------------------------------------------|---------------------|---------------------|
| <b>Income statement</b>                                                |                     |                     |
| Net sales                                                              | 42 334              | 39 482              |
| Cost of products sold                                                  | <u>27 257</u>       | <u>26 652</u>       |
|                                                                        | <u>15 077</u>       | <u>12 830</u>       |
| Operating expenses                                                     | 9 697               | 8 416               |
| Financing costs                                                        | 453                 | 895                 |
| Depreciation                                                           | 1 337               | 1 035               |
| Non-controlling shareholder's interest in the earnings of a subsidiary | <u>8</u>            | <u></u>             |
|                                                                        | <u>11 495</u>       | <u>10 346</u>       |
| Earnings before income taxes                                           | 3 582               | 2 484               |
| Income taxes                                                           | <u>32</u>           | <u></u>             |
| Net earnings                                                           | <u><u>3 550</u></u> | <u><u>2 484</u></u> |
| <b>Balance sheet</b>                                                   |                     |                     |
| Current assets                                                         | 21 724              | 18 130              |
| Long-term assets                                                       | <u>22 543</u>       | <u>20 976</u>       |
|                                                                        | <u>44 267</u>       | <u>39 106</u>       |
| Current liabilities                                                    | 9 465               | 8 288               |
| Long-term liabilities                                                  | 4 166               | 5 104               |
| Shareholder's equity                                                   | <u>30 636</u>       | <u>25 714</u>       |
|                                                                        | <u>44 267</u>       | <u>39 106</u>       |
| <b>Cash flows</b>                                                      |                     |                     |
| Cash flows provided from operating activities                          | 3 502               | 7 717               |
| Cash flows used for financing activities                               | (1 004)             | (5 037)             |
| Cash flows used for investment activities                              | (2 227)             | (1 257)             |

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**18. EMPLOYEE FUTURE BENEFITS**
**Total cash payments**

Total cash payments on account of employee future benefits for 2005, consisting of the SAQ's contributions to the retirement plans and the sums paid directly to the beneficiaries of the cumulative sick leave credits, amounted to \$10.3 million (\$11.4 million in 2004).

**Defined benefit pension plans**

For accounting purposes, the SAQ evaluates its obligations relating to contributions on December 31 of each year. The most recent actuarial valuation of the cumulative sick leave credit plan and the Executive's supplemental retirement plan was carried out on December 31, 2004, and the next valuation must be completed by December 31, 2005.

**Reconciliation of the funded status of the employee benefit plans to the amounts recognized in the financial statements**

|                                                                     | Cumulative Sick Leave<br>Credits Plan |         | Executive's Supplemental<br>Retirement Plan |       |
|---------------------------------------------------------------------|---------------------------------------|---------|---------------------------------------------|-------|
|                                                                     | 2005                                  | 2004    | 2005                                        | 2004  |
| Pension benefit obligations (funded status)                         | 22 608                                | 25 721  | 1 203                                       | 1 041 |
| Variation due to changes in assumptions                             |                                       | (3 706) |                                             |       |
| Unamortized balance                                                 | 10 144                                | 14 070  | (303)                                       | (311) |
| Accrued benefit liabilities appearing<br>on the SAQ's balance sheet | 32 752                                | 36 085  | 900                                         | 730   |

**Cost of employee future benefits recognized during the fiscal year**

|                                    | Sick Leave Credits Plan |       | Retirement Plans |       |
|------------------------------------|-------------------------|-------|------------------|-------|
|                                    | 2005                    | 2004  | 2005             | 2004  |
| Defined benefit pension plans      | 64                      | 7 252 | 170              | 70    |
| Defined contribution pension plans |                         |       | 6 940            | 6 285 |

Compared with the prior fiscal year, the significant decrease in costs recognized for the cumulative sick leave credits plan, assessed by actuarial calculations, is attributable to the following:

Since January 1, 2005, a greater number of SAQ employees are no longer accumulating sick leave credits. The result is a curtailment gain of \$2.1 million, which was fully recognized during the fiscal year ending March 26, 2005.

As of the 2004-2005 fiscal year, the cost of benefits paid over the course of the active career of all employees participating in the plan ceased being an integral part of the actuarial valuation. The impact of this is a \$4.3 million decrease in the recognized costs.

Consequently, the amortization of net actuarial gains increased by \$800 000.

**Benefits paid**

Benefits paid by the cumulative sick leave credits plan amounted to \$3.4 million in 2005 (\$5.1 million in 2004), whereas no benefits were paid in 2005 by the supplemental retirement plan for executives (\$20 000 in 2004).

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**18. EMPLOYEE FUTURE BENEFITS (cont'd)****Principal assumptions**

The principal assumptions used are as follows:

|                                                                            | Cumulative Sick Leave<br>Credits Plan |      | Executive's Supplemental<br>Retirement Plan |      |
|----------------------------------------------------------------------------|---------------------------------------|------|---------------------------------------------|------|
|                                                                            | 2005                                  | 2004 | 2005                                        | 2004 |
| Obligations for pension benefits accumulated at the end of the fiscal year |                                       |      |                                             |      |
| Discount rate                                                              | 5.5%                                  | 6.0% | 5.5%                                        | 6.0% |
| Compensation growth rate                                                   | 3.0%                                  | 3.0% | 3.0%                                        | 3.0% |
| Usage rate of sick leave credits                                           | *                                     | 65%  |                                             |      |

\* From 40% to 65% depending on the employee group

|                                      |      |      |      |      |
|--------------------------------------|------|------|------|------|
| Cost of benefits for the fiscal year |      |      |      |      |
| Discount rate                        | 6.0% | 6.5% | 6.0% | 6.5% |
| Compensation growth rate             | 3.0% | 3.0% | 3.0% | 3.0% |
| Usage rate of sick leave credits     | *    | 65%  |      |      |

\* From 40% to 65% depending on the employee group

**19. CONTINGENCIES AND COMMITMENTS****Contingencies**

In the normal course of its operations, the SAQ is faced with various claims and lawsuits, primarily for damages, totalling nearly \$5.7 million. The management of the SAQ contests these litigations and is opposed to handling the resulting claims. No provisions are recognized in the SAQ's accounting records with respect to these contingencies.

**Commitments**

For its operating leases, the SAQ is committed to paying a total amount of \$302.5 million for the leasing of stores and certain warehouses. The payments for the coming fiscal years will amount to:

|             |         |
|-------------|---------|
| 2006        | 36 710  |
| 2007        | 35 972  |
| 2008        | 34 345  |
| 2009        | 32 786  |
| 2010        | 31 885  |
| 2011 - 2017 | 130 850 |

**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.



**SOCIÉTÉ DES ALCOOLS DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 26, 2005

(in thousands of dollars)

**20. CASH FLOW DATA**

Cash flows related to operating activities include the following elements:

|                                                        | 2005  | 2004   |
|--------------------------------------------------------|-------|--------|
| Interest paid                                          | 9 087 | 10 339 |
| Income taxes paid by the subsidiary of a joint venture | 79    |        |

The net variation in the non-cash items of working capital is detailed as follows:

|                               | 2005           | 2004            |
|-------------------------------|----------------|-----------------|
| Accounts receivable           | 40 553         | (41 598)        |
| Inventory                     | 40 974         | (33 779)        |
| Prepaid expenses              | (3 279)        | 922             |
| Suppliers and other creditors | 57 191         | (17 329)        |
|                               | <u>135 439</u> | <u>(91 784)</u> |

Cash and cash equivalents at the end of the fiscal year include the following items:

|                                 | 2005          | 2004            |
|---------------------------------|---------------|-----------------|
| Cash and short-term investments | 46 282        | 8 460           |
| Bank overdraft                  |               | (54 927)        |
|                                 | <u>46 282</u> | <u>(46 467)</u> |

Short-term investments include 600 000 shares in a mutual fund redeemable at book value at any time.

**21. FINANCIAL INSTRUMENTS****Fair value of financial instruments**

|                                                       | 2005          |               | 2004          |               |
|-------------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                       | Fair<br>value | Book<br>value | Fair<br>value | Book<br>value |
| Debentures receivable, 8.66%<br>maturing July 1, 2009 | 2 505         | 2 500         | 3 037         | 3 000         |
| Debentures payable, 8.66%<br>maturing July 1, 2009    | 2 505         | 2 500         | 3 037         | 3 000         |
| Capital lease obligation                              | 10 238        | 8 883         | 11 143        | 9 678         |

The book value of certain financial instruments maturing in the short term is presumed to correspond to their fair value. These financial instruments include cash and short-term investments; receivables other than the short-term portion of debentures receivable and earnings receivable from the subsidiary of a joint venture; overdrafts; bank loans; suppliers and other creditors, excluding government taxes and fees and the short-term portion of debentures payable; a capital lease obligation; and dividends.

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 26, 2005

(in thousands of dollars)

**21. FINANCIAL INSTRUMENTS** (cont'd)**Fair value of financial instruments** (cont'd)

The fair value of debentures receivable and payable was determined by discounting future cash flows at interest rates the SAQ could currently obtain for debentures with similar conditions and dates of maturity.

The fair value of the capital lease obligation represents the capitalized value of future monthly payments at the annual interest rate offered by Government of Québec bonds, capitalized every 6 months and maturing in 2012. That rate is 6.70% in 2005 (7.33% in 2004).

**Interest rate risk**

Debentures receivable bear a fixed interest rate and expose the SAQ to the risk that market interest rates exceed the interest rate linked to this asset.

The capital lease obligation and the debentures payable bear a fixed interest rate and expose the SAQ to the risk that market interest rates will be lower than the interest rates linked these liabilities.

**Derivative instruments**

To reduce the potential negative effects of a drop in the value of the Canadian dollar on exchange markets, the SAQ and one of its joint ventures entered into forward exchange contracts. Forward exchange contracts with terms of less than 12 months denominated in euros, in U.S. dollars and in Australian dollars, were in effect at the end of the fiscal year ended March 26, 2005 (forward exchange contracts denominated in euros were in effect at the end of the fiscal year ended March 27, 2004).

|                    | 2005                                            |                    | 2004                                            |                    |
|--------------------|-------------------------------------------------|--------------------|-------------------------------------------------|--------------------|
|                    | Weighted<br>average<br>forward<br>exchange rate | Contract<br>amount | Weighted<br>average<br>forward<br>exchange rate | Contract<br>amount |
| Foreign currencies |                                                 |                    |                                                 |                    |
| Euro               | 1.6122                                          | 5 250              | 1.6455                                          | 5 000              |
| U.S. dollar        | 1.2290                                          | 750                |                                                 |                    |
| Australian dollar  | 0.9288                                          | 150                |                                                 |                    |

On March 26, 2005, the fair value of accrued out-of-the-money forward exchange contracts was \$100 000.

**22. COMPARATIVE FIGURES**

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

**SOCIÉTÉ DES ALCOOLS DU QUÉBEC**

## AUDITORS' REPORT

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Michel Audet  
Minister of Finance  
Société des alcools du Québec Shareholder

We have verified the consolidated balance sheet of the Société des alcools du Québec as at March 26, 2005, and the consolidated statements of earnings, retained earnings and cash flows for the fiscal year ended on the above date. These financial statements are the responsibility of the SAQ's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was carried out in accordance with the Canadian generally accepted auditing principles, which require that we plan and perform an audit to obtain reasonable assurance as to 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 presentation of the financial statement.

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 26, 2005, and the results of its operations and its cash flows for the year ended on the above date, in accordance with Canadian generally accepted accounting principles. As prescribed by the Auditor General Act (R.S.Q. c. V-5.01), we hereby declare that, in our opinion, these principles were applied in the same manner as the previous fiscal year.

Raymond Chabot Grant Thornton S.E.N.C.R.L.  
Chartered Accountants

Montréal, May 11, 2005

**SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**  
(R.S.Q., c. S-13.01)

**INCOME**

for the years ended March 31  
(in thousands of dollars)

|                                                                | <u>2005</u>       | <u>2004</u>       |
|----------------------------------------------------------------|-------------------|-------------------|
| <b>REVENUE</b>                                                 |                   |                   |
| Fishing and vacation resorts                                   | 29 460            | 26 631            |
| Hunting                                                        | 13 749            | 14 062            |
| Food services, boutiques and accommodation stores              | 13 264            | 11 730            |
| Other outdoor activities                                       | 12 576            | 11 564            |
| Concessions and miscellaneous                                  | 3 105             | 3 137             |
| Management fees (Note 3)                                       | <u>21 428</u>     | <u>18 622</u>     |
|                                                                | <u>93 582</u>     | <u>85 746</u>     |
| <b>EXPENDITURE</b>                                             |                   |                   |
| Salaries and fringe benefits                                   | 48 074            | 43 857            |
| Maintenance                                                    | 14 741            | 13 542            |
| Overhead and administrative expenses                           | 11 694            | 11 702            |
| Resale products                                                | 9 004             | 8 685             |
| Selling cost and marketing expenses                            | 4 694             | 5 341             |
| Property taxes                                                 | <u>2 166</u>      | <u>2 085</u>      |
|                                                                | <u>90 373</u>     | <u>85 212</u>     |
| <b>OPERATING RESULTS BEFORE<br/>AMORTIZATION AND SUBSIDIES</b> | 3 209             | 534               |
| Amortization                                                   | (5 397)           | (4 928)           |
| Subsidies (Note 3)                                             | <u>4 251</u>      | <u>3 763</u>      |
| <b>OPERATING RESULTS</b>                                       | 2 063             | (631)             |
| <b>FINANCIAL CHARGES</b> (Note 4)                              | (1 087)           | (809)             |
| <b>OTHER ITEMS</b> (Note 5)                                    | <u>(636)</u>      | <u>555</u>        |
| <b>INCOME ON CONTINUING OPERATIONS</b>                         | 340               | (885)             |
| Discontinued operations (Note 6)                               | <u>32</u>         | <u>1 118</u>      |
| <b>NET INCOME</b>                                              | <u><u>372</u></u> | <u><u>233</u></u> |

**ACCUMULATED DEFICIT**  
for the years ended March 31  
(in thousands of dollars)

|                        | <u>2005</u>            | <u>2004</u>            |
|------------------------|------------------------|------------------------|
| <b>OPENING BALANCE</b> | (30 888)               | (31 121)               |
| Net income             | <u>372</u>             | <u>233</u>             |
| <b>CLOSING BALANCE</b> | <u><u>(30 516)</u></u> | <u><u>(30 888)</u></u> |

## SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

BALANCE SHEETS  
as at March 31  
(in thousands of dollars)

|                                                                | 2005           | 2004           |
|----------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                  |                |                |
| <b>Current assets</b>                                          |                |                |
| Accounts receivable                                            | 3 147          | 4 603          |
| Subsidies receivable                                           | 2 057          | 1 891          |
| Inventories                                                    | 3 198          | 2 472          |
| Expenses deferred to the coming year                           | 1 350          | 1 394          |
|                                                                | <u>9 752</u>   | <u>10 360</u>  |
| <b>Subsidies receivable</b>                                    | 18 876         | 15 020         |
| <b>Interest and advance in the affiliated company</b>          | 518            | 537            |
| <b>Fixed assets</b> (Note 7)                                   | 150 227        | 154 348        |
| <b>Assets related to discontinued activities</b> (Note 6)      | 13 892         | 13 892         |
|                                                                | <u>193 265</u> | <u>194 157</u> |
| <b>LIABILITIES</b>                                             |                |                |
| <b>Current liabilities</b>                                     |                |                |
| Bank loan (Note 8)                                             | 700            | 1 004          |
| Accounts payable                                               | 18 188         | 17 637         |
| Customer deposits                                              | 9 669          | 9 322          |
| Long-term debt maturing during the coming year (Note 9)        | 400            | 400            |
|                                                                | <u>28 957</u>  | <u>28 363</u>  |
| <b>Long-term debt</b> (Note 9)                                 | 46 808         | 44 185         |
| <b>Deferred subsidies</b>                                      | 75 821         | 80 192         |
| <b>Liabilities related to discontinued operations</b> (Note 6) | 608            | 718            |
|                                                                | <u>152 194</u> | <u>153 458</u> |
| <b>SHAREHOLDER'S EQUITY</b>                                    |                |                |
| Capital stock (Note 10)                                        | 71 587         | 71 587         |
| Accumulated deficit                                            | (30 516)       | (30 888)       |
|                                                                | <u>41 071</u>  | <u>40 699</u>  |
|                                                                | <u>193 265</u> | <u>194 157</u> |

## COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)

On behalf of the Board of Directors,  
Michel Noël de Tilly  
Yvan Bilodeau

**SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**

**CASH FLOWS**  
for the years ended March 31  
(in thousands of dollars)

|                                       | <u>2005</u>     | <u>2004</u>     |
|---------------------------------------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>           |                 |                 |
| Income from ongoing activities        | 340             | (885)           |
| Amortization                          | 5 397           | 4 928           |
| Other items (Note 5)                  | 636             | (555)           |
| Short-term variation in items         | <u>2 669</u>    | <u>645</u>      |
|                                       | <u>9 042</u>    | <u>4 133</u>    |
| <b>INVESTMENT ACTIVITIES</b>          |                 |                 |
| Acquisition of fixed assets           | (14 865)        | (30 709)        |
| Proceeds from sale of assets          | 1 056           | 784             |
| Advance to an affiliated company      | <u>14</u>       | <u>252</u>      |
|                                       | <u>(13 795)</u> | <u>(29 673)</u> |
| <b>FINANCING ACTIVITIES</b>           |                 |                 |
| Subsidies for fixed asserts cashed in | 1 948           | 3 452           |
| Borrowing                             | 3 023           | 22 410          |
| Repayment of long-term debt           | <u>(400)</u>    | <u>(400)</u>    |
|                                       | <u>4 571</u>    | <u>25 462</u>   |
| <b>DISCONTINUED OPERATIONS</b>        | <u>486</u>      | <u>(47)</u>     |
| <b>CHANGE IN CASH FLOWS</b>           | 304             | (125)           |
| <b>BANK LOAN, BEGINNING OF YEAR</b>   | <u>(1 004)</u>  | <u>(879)</u>    |
| <b>BANK LOAN, END OF YEAR</b>         | <u>(700)</u>    | <u>(1 004)</u>  |

## SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS

as at March 31, 2005  
(in thousands of dollars)

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#### 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), assented to on December 21, 1984. Its purpose is to administer, operate and develop, alone or jointly with others, the recreational or tourist installations, immovable or territories that are transferred to it under this Act; and to devise, erect, administer, operate and develop, alone or jointly with others, any other recreational or tourist installation, immovable or territory.

#### 2. ACCOUNTING POLICIES

##### a) Use of estimates

The preparation of financial statements in keeping with the accounting principles that are generally accepted in Canada requires management to use estimates and assumptions that affect the amount of assets and liabilities recorded and the presentation of potential assets and liabilities at the date of the financial statements, and amounts recorded and charges for the fiscal year. Real results may differ from estimates.

##### b) Stock assessment

Stocks are assessed at the lesser of cost (average cost method) and net realization value.

##### c) Interest in affiliated company

The Société accounts for its interest in the affiliated company on an equity basis.

##### d) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

|                                                                                                 |             |
|-------------------------------------------------------------------------------------------------|-------------|
| Buildings and infrastructures                                                                   | 4%          |
| Ski lifts                                                                                       | 5%          |
| Automotive equipment, furniture, equipment,<br>leasehold improvements and wildlife developments | 14% and 20% |

Fixed assets are reviewed for depreciation when there are indications that their book values may not be recoverable.

##### e) Deferred subsidies

Fixed asset subsidies are recorded as deferred subsidies and transferred to operations as the fixed assets to which they relate are depreciated.

##### f) Income tax

Pursuant to the Act respecting the Société des établissements de plein air du Québec, all Société shares are held by the Minister of Finance of Québec. The Société is therefore not subject to income tax.

##### g) Pension plans

The staff members of the Société are covered by pension plans offered to Québec government and public agency employees. The Société's contribution to these plans totalled \$1 230 655 (2004: \$1 167 175), was established by the Commission administrative des régimes de retraite et d'assurances du Québec and covers the cost of current service.

**SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005  
(in thousands of dollars)

**3. MANAGEMENT FEES AND SUBSIDIES**
**Management fees**

Management fees come from the Gouvernement du Québec and are paid to cover costs related to conservation, education and national park network maintenance.

**Subsidies**

|                                                       | <u>2005</u>  | <u>2004</u>  |
|-------------------------------------------------------|--------------|--------------|
| <b>Subsidies recorded in the statement of results</b> |              |              |
| Gouvernement du Québec                                |              |              |
| Fonds Jeunesse Québec                                 | 2 196        | 2 292        |
| Ministère des Ressources naturelles et de la Faune    | 187          | 200          |
| Chic-Chocs development project                        | 1 100        | 815          |
| Plaisance and Anticosti national parks                | 409          | 225          |
| Major maintenance                                     | <u>359</u>   | <u>231</u>   |
|                                                       | <u>4 251</u> | <u>3 763</u> |
| <b>Subsidies for fixed assets</b>                     | <u>5 970</u> | <u>5 491</u> |

**4. FINANCIAL CHARGES**

The financial charges of \$1 087 000 (2004: \$809 000) include interest on the long-term debt of \$1 076 000 (2004: \$802 000) and interest on the bank borrowing of \$11 000 (2004: \$7 000).

**5. OTHER ITEMS**

|                                                        | <u>2005</u>    | <u>2004</u>       |
|--------------------------------------------------------|----------------|-------------------|
| Gain on sale of assets                                 | 997            | 556               |
| Share in results of affiliated company                 | (5)            | (1)               |
| Reduction in value of Auberge Fort-Prével fixed assets | <u>(1 628)</u> | <u>          </u> |
|                                                        | <u>(636)</u>   | <u>555</u>        |

Auberge Fort-Prével fixed assets were depreciated, given that their book value is not totally recoverable due to the establishment's recurrent negative profitability. The comparison method, i.e. analysis of transactions of comparable assets, was used to determine the fair value of these assets.

**6. DISCONTINUED OPERATIONS**

On May 12, 1994, the government announced the privatization of Parc du Mont-Sainte-Anne and, in the following fiscal year, transferred these assets. In the financial statements for the year ended on May 31, 1994, the Société recorded a loss following this decision to cover the transaction fees and loss on transfer of assets and to reflect the period for cashing receivables, potentially until 2029.

Assets related to the discontinued activities comprise Société property interests and liabilities including accounts payable and accruals.

The item "discontinued activities" on the balance sheet represents the transfer of the actualization discount.



**SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005  
(in thousands of dollars)

**7. FIXED ASSETS**

|                                             | 2005           |                          | 2004           |
|---------------------------------------------|----------------|--------------------------|----------------|
|                                             | Cost           | Accumulated depreciation | Net value      |
| Land                                        | 2 467          |                          | 2 467          |
| Buildings and infrastructures               | 172 526        | 33 895                   | 138 631        |
| Ski lifts                                   | 1 463          | 805                      | 658            |
| Automotive equipment                        | 10 475         | 5 614                    | 4 861          |
| Furniture, equipment, leasehold improvement | 17 091         | 13 481                   | 3 610          |
|                                             | <u>204 022</u> | <u>53 795</u>            | <u>150 227</u> |
|                                             |                |                          | <u>154 348</u> |

**8. BANK LOAN**

The bank loan of a total authorized amount of \$1 500 000 bears interest at a rate of 4.25% and was renewed in April 2005.

**9. LONG-TERM DEBT**

|                                                                                                                                                                                                                                                                          | 2005          | 2004          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Long-term borrowings for an authorized amount of \$66 000 000, repayable in keeping with a maximum amortization of 17 years on the original capital, plus interest at variable rates from 2.68% to 2.90%, renewable between May 2005 and February 2006, maturing in 2019 | 46 208        | 43 185        |
| Borrowing from the Government of Canada of an original amount of \$4 000 000 under the Canada Québec Québec Subsidiary Agreement on Tourism Development, interest-free, repayable in semi-annual instalments of \$200 000, maturing in 2008                              | <u>1 000</u>  | <u>1 400</u>  |
|                                                                                                                                                                                                                                                                          | 47 208        | 44 585        |
| Less: Portion due within one year                                                                                                                                                                                                                                        | <u>400</u>    | <u>400</u>    |
|                                                                                                                                                                                                                                                                          | <u>46 808</u> | <u>44 185</u> |

Payments of principal on the long-term debt for the next fiscal years break down as follows:

|      |     |
|------|-----|
| 2006 | 400 |
| 2007 | 400 |
| 2008 | 200 |

**SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005  
(in thousands of dollars)

**10. CAPITAL STOCK**

|                                                                                                                                                         | 2005          | 2004          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Authorized:                                                                                                                                             |               |               |
| Pursuant to its incorporating act, 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> |

**11. COMMITMENTS**

The Société is bound by commitments for a balance of \$15 385 150, excluding escalator clauses on leases. The minimum lease payments for the next five fiscal years are as follows:

|      |       |
|------|-------|
| 2006 | 4 005 |
| 2007 | 2 353 |
| 2008 | 1 758 |
| 2009 | 1 270 |
| 2010 | 1 264 |

Furthermore, at March 31, 2005, the Société committed to incurring fixed asset costs of \$3 176 000 in the next fiscal year.

**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.

**13. FINANCIAL INSTRUMENTS**

Given the fact that they mature in the near future or the short term, the book value of accounts receivable, bank borrowing, accounts payable and customer deposits shown in the financial statement are close to their fair value.

The book value of assets related to discontinued activities is close to their fair value.

The fair value of the debt contracted with the federal government and subsidies receivable were not determined since it was practically impossible to find an instrument on the market presenting essentially the same economic characteristics.

**14. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**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 drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with accounting principles that are generally accepted in Canada. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains an accounting system and 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 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. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The accounting firm of Mallette, general partnership, limited-liability chartered accountants, has audited the Société's financial statements in accordance with auditing standards that are generally accepted in Canada. Its report states the nature and scope of its audit and its opinion. The auditor may, without restriction, meet with the audit 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, April 29, 2005

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**AUDITORS' REPORT**

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To the Minister of Finance

We have audited the balance sheet of the Société des établissements de plein air du Québec as at March 31, 2005 and the statements of income, accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audits.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Mallette  
SENCRL  
Chartered Accountants

Québec, April 29, 2005

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**  
(R.S.Q., c. S-14)

INCOME AND DEFICIT  
for the year ended March 31, 2005

|                                             | <u>2005</u>               | <u>2004</u><br>(Note 20)   |
|---------------------------------------------|---------------------------|----------------------------|
| <b>EXPENDITURE</b>                          |                           |                            |
| Operating expenses (Note 3)                 | \$42 470 214              | \$41 204 437               |
| Administrative expenses (Note 4)            | 4 364 494                 | 4 275 047                  |
| Depreciation of fixed assets                | 8 601 660                 | 8 755 531                  |
| Financial expenses                          | <u>4 368 091</u>          | <u>4 344 267</u>           |
|                                             | <u>59 804 459</u>         | <u>58 579 282</u>          |
| <b>REVENUE</b>                              |                           |                            |
| Vehicle transport                           | 7 281 951                 | 7 141 007                  |
| Passenger transport                         | 6 315 940                 | 6 059 022                  |
| Other (Note 5)                              | <u>933 960</u>            | <u>949 371</u>             |
|                                             | <u>14 531 851</u>         | <u>14 149 400</u>          |
| <b>LOSS BEFORE GOVERNMENT CONTRIBUTIONS</b> | 45 272 608                | 44 429 882                 |
| <b>GOVERNMENT CONTRIBUTIONS</b> (Note 6)    | <u>45 846 240</u>         | <u>44 939 885</u>          |
| <b>NET INCOME</b>                           | 573 632                   | 510 003                    |
| <b>DEFICIT, BEGINNING OF YEAR</b>           | <u>10 316 394</u>         | <u>10 826 397</u>          |
| <b>DEFICIT, END OF YEAR</b>                 | <u><u>\$9 742 762</u></u> | <u><u>\$10 316 394</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**
**BALANCE SHEET**  
 as at March 31, 2005

|                                                                                      | <u>2005</u>                 | <u>2004</u>                 |
|--------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                                                                        |                             |                             |
| <b>Current assets</b>                                                                |                             |                             |
| Cash on hand                                                                         | \$5 496 107                 | \$4 285 598                 |
| Accounts receivable (Note 7)                                                         | 786 450                     | 1 429 787                   |
| Prepaid expenses                                                                     | 322 902                     | 213 321                     |
| Contribution to be recovered from the Government (Note 8)                            | <u>962 748</u>              | <u>979 288</u>              |
|                                                                                      | 7 568 207                   | 6 907 994                   |
| <b>Investment of compensation for federal wharves (Note 11)</b>                      | 36 696 205                  | 37 594 254                  |
| <b>Contribution to be recovered from the Government (Note 8)</b>                     | 26 199 240                  | 24 643 146                  |
| <b>Fixed assets (Note 9)</b>                                                         | <u>83 274 416</u>           | <u>90 481 849</u>           |
|                                                                                      | <u><u>\$153 738 068</u></u> | <u><u>\$159 627 243</u></u> |
| <b>LIABILITIES</b>                                                                   |                             |                             |
| <b>Current liabilities</b>                                                           |                             |                             |
| Accounts payable and accruals                                                        | \$7 408 480                 | \$7 079 705                 |
| Instalments on long-term debt (Note 10)                                              | <u>4 185 811</u>            | <u>3 943 919</u>            |
|                                                                                      | 11 594 291                  | 11 023 624                  |
| <b>Rent collected in advance</b>                                                     | 144 000                     | 150 000                     |
| <b>Long-term debt (Note 10)</b>                                                      | 81 002 961                  | 85 188 772                  |
| <b>Deferred government contribution</b>                                              |                             |                             |
| Related to the financial compensation from the transfer of federal wharves (Note 11) | 36 696 205                  | 37 594 254                  |
| Related to fixed assets (Note 12)                                                    | <u>32 369 579</u>           | <u>34 313 193</u>           |
|                                                                                      | 69 065 784                  | 71 907 447                  |
|                                                                                      | <u>161 807 036</u>          | <u>168 269 843</u>          |
| <b>SHAREHOLDER'S EQUITY (DEFICIT)</b>                                                |                             |                             |
| Capital stock (Note 13)                                                              | 1 500 000                   | 1 500 000                   |
| Contributed surplus (Note 14)                                                        | 173 794                     | 173 794                     |
| Deficit                                                                              | <u>(9 742 762)</u>          | <u>(10 316 394)</u>         |
|                                                                                      | <u>(8 068 968)</u>          | <u>(8 642 600)</u>          |
|                                                                                      | <u><u>\$153 738 068</u></u> | <u><u>\$159 627 243</u></u> |

**COMMITMENTS (Note 15)**

The notes are an integral part of these financial statements.

 On behalf of the Board of Directors,  
 Jean-Yves Gagnon  
 Yvan Desgagnés

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC****CASH FLOWS**

for the year ended March 31, 2005

|                                                                                                          | <u>2005</u>               | <u>2004</u>               |
|----------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                                                              |                           |                           |
| Net income                                                                                               | \$573 632                 | \$510 003                 |
| Adjustments for:                                                                                         |                           |                           |
| Depreciation of fixed assets                                                                             | 8 601 660                 | 8 755 531                 |
| Increase in contribution to be recovered from<br>the Government                                          | (1 539 554)               | (1 511 496)               |
| Transfer of deferred Government contributions                                                            | (5 200 020)               | (5 101 547)               |
| Gain (loss) on disposal of fixed assets                                                                  | 19 718                    | (366 443)                 |
| Decrease in rent collected in advance                                                                    | (6 000)                   | (6 000)                   |
|                                                                                                          | <u>2 449 436</u>          | <u>2 280 048</u>          |
| Change in certain elements of assets and short-term<br>liabilities apart from cash and cash equivalents: |                           |                           |
| Accounts receivable                                                                                      | 643 337                   | 53 774                    |
| Prepaid expenses                                                                                         | (109 581)                 | 146 698                   |
| Accounts payable and accruals                                                                            | <u>167 111</u>            | <u>727 368</u>            |
| Cash flows provided by operating activities                                                              | <u>3 150 303</u>          | <u>3 207 888</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                                                             |                           |                           |
| Acquisition of long-term investment                                                                      | (2 292 512)               | (2 337 188)               |
| Proceeds from disposal of investment                                                                     | 3 322 251                 | 3 104 600                 |
| Acquisition of fixed assets                                                                              | (1 255 612)               | (7 546 576)               |
| Proceeds from disposal of fixed assets                                                                   | <u>3 331</u>              | <u>494 562</u>            |
| Cash flows used for investment activities                                                                | <u>(222 542)</u>          | <u>(6 284 602)</u>        |
| <b>FINANCING ACTIVITIES</b>                                                                              |                           |                           |
| Long-term borrowing                                                                                      |                           | 6 846 844                 |
| Government contribution and related financial proceeds<br>from transfer of federal wharves               | 2 226 667                 | 2 234 113                 |
| Repayment of long-term debt                                                                              | <u>(3 943 919)</u>        | <u>(3 959 687)</u>        |
| Cash flows provided by (used for) financing activities                                                   | <u>(1 717 252)</u>        | <u>5 121 270</u>          |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                             | 1 210 509                 | 2 044 556                 |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                                      | <u>4 285 598</u>          | <u>2 241 042</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)</b>                                                  | <u><u>\$5 496 107</u></u> | <u><u>\$4 285 598</u></u> |

The notes are an integral part of these financial statements.

## SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 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) for the purpose of providing ferryboat transportation services across rivers and lakes situated in Québec. Its shares are part of the public domain of Québec 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, is not subject to Québec and Canadian income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Fixed assets

Fixed assets acquired by donation are valued at historical cost, appraised value or their municipal assessment. Other fixed assets are recorded at acquisition cost, which includes interest accrued during construction and repair work.

Fixed assets are depreciated according to 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 |

##### 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 the acquisition of fixed assets, 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 the acquisition of fixed assets and the value assigned to assets acquired by donation are recorded as deferred Government contributions and transferred to operations using the same methods and rates of depreciation as those used for the fixed assets concerned.

The subsidy and related financial proceeds bound by an external appropriation to charges for future fiscal years are posted to proceeds in the fiscal year during which the corresponding charges are posted.

##### Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents 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.

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. OPERATING EXPENSES**

|                                     | 2005                | 2004                |
|-------------------------------------|---------------------|---------------------|
|                                     |                     | (Note 20)           |
| Salaries and fringe benefits        | \$20 000 261        | \$20 207 502        |
| Operating contracts                 | 1 789 138           | 1 569 527           |
| Fuel                                | 5 708 964           | 4 137 755           |
| Maintenance and repairs – Vessels   | 5 335 025           | 5 020 185           |
| Maintenance and repairs – Wharves   | 4 365 730           | 5 186 089           |
| Maintenance and repairs – Buildings | 460 093             | 438 421             |
| Property and school taxes           | 862 302             | 856 527             |
| Insurance                           | 1 567 968           | 1 589 567           |
| Other                               | 2 583 007           | 2 198 864           |
| Amounts recovered from insurers     | (202 274)           |                     |
|                                     | <u>\$42 470 214</u> | <u>\$41 204 437</u> |

**4. ADMINISTRATIVE EXPENSES**

|                                 | 2005               | 2004               |
|---------------------------------|--------------------|--------------------|
|                                 |                    | (Note 20)          |
| Salaries and fringe benefits    | \$3 188 791        | \$3 173 207        |
| Staff training                  | 217 692            | 186 829            |
| Stationery and printing         | 101 920            | 95 902             |
| Professional fees               | 194 802            | 136 809            |
| Other                           | 701 289            | 682 300            |
| Amounts recovered from insurers | (40 000)           |                    |
|                                 | <u>\$4 364 494</u> | <u>\$4 275 047</u> |

**5. OTHER REVENUE**

|                                                                                                 | 2005             | 2004             |
|-------------------------------------------------------------------------------------------------|------------------|------------------|
| Interest on bank deposits                                                                       | \$178 540        | \$126 892        |
| Interest on adjustment to the Commission de la<br>santé et de la sécurité du travail assessment | 9 640            | 7 074            |
| Docking fees                                                                                    | 58 726           | 69 892           |
| Parking and miscellaneous                                                                       | 125 005          | 106 307          |
| Vending machines and food concession                                                            | 197 841          | 212 519          |
| Advertising                                                                                     | 32 605           | 33 651           |
| Vessel rental                                                                                   | 4 000            | 8 500            |
| Space rental                                                                                    | 24 017           | 18 093           |
| Lawsuit settlement                                                                              | 323 304          |                  |
| Gain (loss) on disposal of fixed assets                                                         | (19 718)         | 366 443          |
|                                                                                                 | <u>\$933 960</u> | <u>\$949 371</u> |



**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**6. GOVERNMENT CONTRIBUTIONS**

|                                                                                         | 2005                | 2004                |
|-----------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Gouvernement du Québec subsidies</b>                                                 |                     |                     |
| Operating subsidy from the Ministère des Transports                                     | \$38 916 100        | \$38 326 842        |
| Conseil du Trésor subsidy                                                               | 190 566             |                     |
| Government contributions collectable                                                    | 1 539 554           | 1 511 496           |
|                                                                                         | <u>40 646 220</u>   | <u>39 838 338</u>   |
| <b>Transfer of deferred Government contributions</b>                                    |                     |                     |
| Related to the financial compensation from the transfer<br>of federal wharves (Note 11) | 3 256 406           | 3 001 525           |
| Related to fixed assets (Note 12)                                                       | 1 943 614           | 2 100 022           |
|                                                                                         | <u>5 200 020</u>    | <u>5 101 547</u>    |
|                                                                                         | <u>\$45 846 240</u> | <u>\$44 939 885</u> |

**7. ACCOUNTS RECEIVABLE**

|                                             | 2005             | 2004               |
|---------------------------------------------|------------------|--------------------|
| Transportation sector                       | \$304 912        | \$375 460          |
| Government sector                           | 29 502           | 52 457             |
| Ministère des Transports subsidy receivable |                  | 933 042            |
| Insurance claim and lawsuit settlement      | 406 035          | 25 044             |
| Other                                       | 46 001           | 43 784             |
|                                             | <u>\$786 450</u> | <u>\$1 429 787</u> |

**8. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT**

The Government committed to paying the Société the sums required to discharge its obligations regarding borrowings from the Financing Fund for the acquisition of fixed assets, after ensuring that the Société is unable to discharge them itself.

The contribution to be recovered is as follows:

|                                                               | 2005                | 2004                |
|---------------------------------------------------------------|---------------------|---------------------|
| Opening balance                                               | \$25 622 434        | \$24 110 938        |
| Depreciation of fixed assets financed on<br>a long-term basis | 5 500 013           | 5 425 536           |
| Accrued interest on borrowings                                | 4 368 091           | 4 344 267           |
|                                                               | <u>35 490 538</u>   | <u>33 880 741</u>   |
| Government contributions received                             | <u>(8 328 550)</u>  | <u>(8 258 307)</u>  |
| Closing balance                                               | <u>\$27 161 988</u> | <u>\$25 622 434</u> |

## SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**8. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT** (cont'd)

This balance relates to the following balance sheet items:

|                                                                            | 2005                | 2004                |
|----------------------------------------------------------------------------|---------------------|---------------------|
| Borrowings from the Financing Fund (Note 10)                               | \$59 637 362        | \$63 581 281        |
| Unamortized cost of fixed assets financed on<br>a long-term basis (Note 9) | <u>(33 438 122)</u> | <u>(38 938 135)</u> |
|                                                                            | 26 199 240          | 24 643 146          |
| Accrued interest on borrowings                                             | <u>962 748</u>      | <u>979 288</u>      |
|                                                                            | <u>\$27 161 988</u> | <u>\$25 622 434</u> |

**9. FIXED ASSETS**

|                                 | 2005                                               |                                                        |                                         |                    | 2004                |                     |
|---------------------------------|----------------------------------------------------|--------------------------------------------------------|-----------------------------------------|--------------------|---------------------|---------------------|
|                                 | Financed<br>on a<br>long-term<br>basis<br>(Note 8) | Acquired<br>from the<br>Gouver-<br>nement du<br>Québec | Acquired<br>by<br>donation<br>(Note 12) | Other              | Total               | Total               |
| <b>Cost</b>                     |                                                    |                                                        |                                         |                    |                     |                     |
| Land                            |                                                    |                                                        | \$173 794                               | \$21 972           | \$195 766           | \$195 766           |
| Wharves                         | \$932 712                                          | \$23 108 643                                           | 40 401 297                              | 721 870            | 65 164 522          | 65 164 522          |
| Buildings*                      | 2 625 000                                          | 1 707 067                                              | 4 967 215                               | 2 995 187          | 12 294 469          | 11 067 931          |
| Vessels                         | 103 483 468                                        |                                                        | 29 228 708                              | 1 837 042          | 134 549 218         | 134 551 027         |
| Furniture and equipment         |                                                    |                                                        | 12 738                                  | 2 330 751          | 2 343 489           | 2 234 215           |
| Automotive equipment            |                                                    |                                                        |                                         | 123 149            | 123 149             | 123 149             |
| Leasehold improvements          |                                                    |                                                        | <u>215 930</u>                          | <u>637 794</u>     | <u>853 724</u>      | <u>853 724</u>      |
|                                 | <u>107 041 180</u>                                 | <u>24 815 710</u>                                      | <u>74 999 682</u>                       | <u>8 667 765</u>   | <u>215 524 337</u>  | <u>214 190 334</u>  |
| <b>Accumulated depreciation</b> |                                                    |                                                        |                                         |                    |                     |                     |
| Wharves                         | 329 401                                            | 10 621 653                                             | 10 930 064                              | 128 545            | 22 009 663          | 19 738 355          |
| Buildings                       | 205 800                                            | 1 224 944                                              | 2 998 548                               | 631 650            | 5 060 942           | 4 579 178           |
| Vessels                         | 73 067 857                                         |                                                        | 28 302 539                              | 1 288 724          | 102 659 120         | 97 031 456          |
| Furniture and equipment         |                                                    |                                                        | 9 228                                   | 1 552 322          | 1 561 550           | 1 408 664           |
| Automotive equipment            |                                                    |                                                        |                                         | 104 922            | 104 922             | 97 108              |
| Leasehold improvements          |                                                    |                                                        | <u>215 930</u>                          | <u>637 794</u>     | <u>853 724</u>      | <u>853 724</u>      |
|                                 | <u>73 603 058</u>                                  | <u>11 846 597</u>                                      | <u>42 456 309</u>                       | <u>4 343 957</u>   | <u>132 249 921</u>  | <u>123 708 485</u>  |
| <b>Net value</b>                | <u>\$33 438 122</u>                                | <u>\$12 969 113</u>                                    | <u>\$32 543 373</u>                     | <u>\$4 323 808</u> | <u>\$83 274 416</u> | <u>\$90 481 849</u> |

\* At March 31, 2005, this item included \$878 505 for the construction of the Godbout station walkway on which no amortization was recorded.

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**10. LONG-TERM DEBT**

|                                                                                                                                                                                                                                                        | 2005                | 2004                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Owed to the Gouvernement du Québec, payable on request, interest-free and 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                                                                                                                                     | 17 336 336          | 19 271 984          |
| Borrowing from the Financing Fund, 6.96%, repayable in semi-annual instalments of \$1 725 967, maturing January 2018                                                                                                                                   | 29 195 472          | 30 548 310          |
| Borrowing from the Financing Fund, 5.06%, repayable in semi-annual instalments of \$280 938, maturing January 2018                                                                                                                                     | 5 304 253           | 5 641 347           |
| Borrowing from the Financing Fund, 5.68%, repayable in semi-annual instalments of \$288 635, maturing January 2018                                                                                                                                     | 5 250 689           | 5 520 099           |
| Borrowing from the Financing Fund, 6.04%, repayable in semi-annual instalments of \$102 319, maturing January 2028                                                                                                                                     | 2 550 612           | 2 599 541           |
|                                                                                                                                                                                                                                                        | 85 188 772          | 89 132 691          |
| Instalments due within one year                                                                                                                                                                                                                        | 4 185 811           | 3 943 919           |
|                                                                                                                                                                                                                                                        | <u>\$81 002 961</u> | <u>\$85 188 772</u> |

Payments of principal on loans for the next five fiscal years are as follows:

|      |             |
|------|-------------|
| 2006 | \$4 185 811 |
| 2007 | 4 502 046   |
| 2008 | 4 842 753   |
| 2009 | 5 209 860   |
| 2010 | 5 605 457   |

**11. 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.

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**11. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FINANCIAL COMPENSATION FROM THE TRANSFER OF FEDERAL WHARVES (cont'd)**

|                                                                                                            | 2005                | 2004                |
|------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Opening balance                                                                                            | \$37 594 254        | \$38 155 516        |
| Interest earned                                                                                            | 2 192 602           | 2 203 000           |
| Amortization of discount and premiums on investments                                                       | 99 910              | 134 188             |
| Safekeeping charges                                                                                        | (2 234)             | (1 107)             |
| Gain on disposal of investment                                                                             | 68 079              | 104 182             |
|                                                                                                            | <u>39 952 611</u>   | <u>40 595 779</u>   |
| Transfer to operations of an amount equivalent to net maintenance and repair costs for the federal wharves | <u>(3 256 406)</u>  | <u>(3 001 525)</u>  |
|                                                                                                            | <u>\$36 696 205</u> | <u>\$37 594 254</u> |

This balance relates to the following balance sheet items:

Investment of compensation for federal wharves comprising:

|                                                              |                     |                     |
|--------------------------------------------------------------|---------------------|---------------------|
| Cash                                                         | \$334 360           | \$90 909            |
| Compulsory market investment<br>(market value: \$39 845 799) | 35 989 284          | 37 091 814          |
| Accrued interest receivable                                  | <u>372 561</u>      | <u>411 531</u>      |
|                                                              | <u>\$36 696 205</u> | <u>\$37 594 254</u> |

Compulsory investments include interest of 4% to 12.25%. Maturity dates range from April 2005 to July 2025.

**12. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FIXED ASSETS**

|                                                                    | 2005               | 2004               |
|--------------------------------------------------------------------|--------------------|--------------------|
| <b>a) Gouvernement du Québec</b>                                   |                    |                    |
| Opening balance                                                    | \$4 937 179        | \$5 476 001        |
| Amortization of fixed assets subsidized<br>or acquired by donation | (461 707)          | (519 834)          |
| Unamortized balance on immovable<br>sold during the year           | <u>(9 436)</u>     | <u>(18 988)</u>    |
| Closing balance (Amounts carried forward)                          | <u>\$4 466 036</u> | <u>\$4 937 179</u> |

## SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**12. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FIXED ASSETS (cont'd)**

|                         | 2005               | 2004               |
|-------------------------|--------------------|--------------------|
| Amounts brought forward | <u>\$4 466 036</u> | <u>\$4 937 179</u> |

**b) Gouvernement du Canada**

|                                                                                                        |                            |                            |
|--------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Opening balance                                                                                        | 29 376 014                 | 30 937 214                 |
| Transfer to operations of an amount equal to the depreciation<br>of subsidized or donated fixed assets | <u>(1 472 471)</u>         | <u>(1 561 200)</u>         |
| Closing balance                                                                                        | <u>27 903 543</u>          | <u>29 376 014</u>          |
|                                                                                                        | <u><u>\$32 369 579</u></u> | <u><u>\$34 313 193</u></u> |

This balance relates to the following items:

|                                                                       |                            |                            |
|-----------------------------------------------------------------------|----------------------------|----------------------------|
| Land                                                                  | \$173 794                  | \$173 794                  |
| Wharves                                                               | 29 471 233                 | 31 022 351                 |
| Buildings                                                             | 1 968 667                  | 2 196 842                  |
| Vessels                                                               | 926 169                    | 1 089 612                  |
| Fixtures and equipment                                                | <u>3 510</u>               | <u>4 388</u>               |
|                                                                       | 32 543 373                 | 34 486 987                 |
| Deduct: Government share recorded as<br>contributed surplus (Note 14) | <u>(173 794)</u>           | <u>(173 794)</u>           |
|                                                                       | <u><u>\$32 369 579</u></u> | <u><u>\$34 313 193</u></u> |

**13. CAPITAL STOCK**

|                                                              | 2005               | 2004               |
|--------------------------------------------------------------|--------------------|--------------------|
| Authorized:<br>100 000 shares with a par value of \$100 each |                    |                    |
| Issued and paid up:<br>15 000 shares                         | <u>\$1 500 000</u> | <u>\$1 500 000</u> |

**14. CONTRIBUTED SURPLUS**

|                                                                        | 2005                    | 2004                    |
|------------------------------------------------------------------------|-------------------------|-------------------------|
| Government share related to property<br>acquired by donation (Note 12) | <u><u>\$173 794</u></u> | <u><u>\$173 794</u></u> |

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**15. COMMITMENTS**

During the fiscal year, the Société renewed its lease for the Lévis station, ending in 2019. This lease includes an option to renew for another fourteen years. The lease for the rental of space in the Port of Québec ended in October 2004. It is in the process of being renewed for a five-year period with three renewals off five years each.

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 and to make up their budgetary deficit.

Lease payments for the year ended March 31, 2005 amount to \$60 472. Remuneration paid to carriers amounts to \$1 789 138.

At March 31, 2005, the Société's commitments for the next five fiscal years are as follows:

|      | Leases *         | Services<br>agreements ** |
|------|------------------|---------------------------|
| 2006 | \$46 000         | \$1 862 192               |
| 2007 | 47 000           | 509 500                   |
| 2008 | 48 000           |                           |
| 2009 | 49 000           |                           |
| 2010 | 50 000           |                           |
|      | <u>\$240 000</u> | <u>\$2 371 692</u>        |

\* The lease-related commitments are for the Lévis station only. Data for the lease to be signed for the Port of Québec is not yet available.

\*\* Services agreements are based on an estimate of projected contract costs and budgetary deficits of carriers.

**16. CASH FLOWS**

|                           | 2005               | 2004               |
|---------------------------|--------------------|--------------------|
| Cash and cash equivalents |                    |                    |
| Cash on hand              | <u>\$5 496 107</u> | <u>\$4 285 598</u> |

Interest paid during the fiscal year amounts to \$4 384 631 (2004: \$4 298 620).

**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 either joint control or significant influence by it. The Société 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.

**18. PENSION PLANS**

Most of the staff members of the Société participate in the Government and Public Employees Retirement Plan or the Pension Plan of Management Personnel. These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$563 194 (2004: \$507 392). The Société's liability towards this Government plan is restricted to its contributions as an employer.

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**19. FINANCIAL INSTRUMENTS****Long-term debt**

At March 31, 2005, the fair value of the long-term debt of \$85 188 772 (2004: \$89 132 691) was \$92 549 520 (2004: \$97 075 946) given the discounting of cash flows at the market rate for certificates of indebtedness with similar maturity dates and interest rates. 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 at book value given the lack of a market for this type of long-term debt.

**Short-term borrowing**

At March 31, 2005, the Société was able to meet its short-term cash needs through short-term borrowings or a credit line with financial institutions or the Government's Financing Fund. These credit lines are authorized up to \$5 000 000 until July 31, 2007.

**Other assets and liabilities**

The fair value of cash, accounts receivable, accounts payable and accrued liabilities is equal to their book value, given that they mature in the near future.

**20. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**MANAGEMENT'S REPORT**

The financial statements of the Société des traversiers du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 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 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 the auditing standards that are generally accepted in Canada. His report states the nature and scope of his audit and his opinion.

Jean-Yves Gagnon  
President and Chief Executive Officer

Québec, June 3, 2005

**SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**

AUDITOR'S REPORT

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To the Minister of Finance

I have audited the balance sheet of the Société des traversiers du Québec as at March 31, 2005 and the statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 3, 2005



**SOCIÉTÉ D'HABITATION DU QUÉBEC**  
(R.S.Q., c. S-8)

REVENUE AND EXPENDITURE  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                         | <u>2004</u>    | <u>2003</u>    |
|-----------------------------------------|----------------|----------------|
| <b>REVENUE</b>                          |                |                |
| Contributions (Note 3)                  |                |                |
| Gouvernement du Québec                  | 303 989        | 298 964        |
| Canada Mortgage and Housing Corporation | <u>289 255</u> | <u>305 629</u> |
|                                         | 593 244        | 604 593        |
| Fees (Note 4)                           | 976            | 843            |
| Interest and other revenue              | <u>1 533</u>   | <u>675</u>     |
|                                         | <u>595 753</u> | <u>606 111</u> |
| <b>EXPENDITURE</b>                      |                |                |
| Program costs (Note 3)                  | 563 138        | 574 044        |
| Administrative expenses (Note 5)        | <u>32 615</u>  | <u>32 067</u>  |
|                                         | <u>595 753</u> | <u>606 111</u> |

**SOCIÉTÉ D'HABITATION DU QUÉBEC**

**BALANCE SHEET**  
as at December 31, 2004  
(in thousands of dollars)

|                                                                              | <u>2004</u>    | <u>2003</u>    |
|------------------------------------------------------------------------------|----------------|----------------|
| <b>ASSETS</b>                                                                |                |                |
| <b>Current assets</b>                                                        |                |                |
| Cash and cash equivalents (Note 6)                                           | 50 406         | 29 927         |
| Accounts receivable (Note 7)                                                 | <u>78 490</u>  | <u>126 718</u> |
|                                                                              | 128 896        | 156 645        |
| <b>Contribution recoverable – Gouvernement<br/>du Québec (Note 13)</b>       | 8 595          | 7 804          |
| <b>Fixed assets (Note 8)</b>                                                 | <u>4 952</u>   | <u>4 450</u>   |
|                                                                              | <u>142 443</u> | <u>168 899</u> |
| <b>LIABILITIES</b>                                                           |                |                |
| <b>Current liabilities</b>                                                   |                |                |
| Short-term borrowing (Note 9)                                                | 4 894          | 4 450          |
| Accounts payable (Note 10)                                                   | 61 222         | 99 316         |
| Provision for vacation time (Note 11)                                        | 2 246          | 2 371          |
| Deferred contribution – Canada Mortgage<br>and Housing Corporation (Note 12) | <u>59 395</u>  | <u>48 805</u>  |
|                                                                              | 127 757        | 154 942        |
| <b>Allowance for losses on loan guarantees (Note 13)</b>                     | 8 595          | 7 804          |
| <b>Provision for sick leave (Note 11)</b>                                    | <u>6 091</u>   | <u>6 153</u>   |
|                                                                              | <u>142 443</u> | <u>168 899</u> |

**COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)**

On behalf of the Board of Directors,  
Jacqueline Exumé Kavanaght, Chairman of the Board of Directors  
Pierre Cliche, President and CEO

## SOCIÉTÉ D'HABITATION DU QUÉBEC

CASH FLOWS  
for the year ended December 31, 2004  
(in thousands of dollars)

|                                                            | 2004           | 2003           |
|------------------------------------------------------------|----------------|----------------|
| <b>CASH FLOWS RELATED TO<br/>OPERATING ACTIVITIES</b>      |                |                |
| Cash receipts – government contributions                   | 649 945        | 570 957        |
| Cash receipts – fees                                       | 919            | 917            |
| Cash receipts – other                                      | 96             | 195            |
| Disbursements – program cost                               | (599 285)      | (521 918)      |
| Disbursements – administrative expenses                    | (30 410)       | (30 033)       |
| Interest received                                          | 1 441          | 500            |
| Interest paid                                              | (106)          | (110)          |
|                                                            | <u>22 600</u>  | <u>20 508</u>  |
| Amounts held for funding agencies (Note 14)                |                |                |
| Cash receipts – amounts received                           | 1 798          | 1 191          |
| Disbursements – amounts received                           | (1 755)        | (1 066)        |
| Interest received                                          | 6              | 7              |
|                                                            | <u>49</u>      | <u>132</u>     |
|                                                            | <u>22 649</u>  | <u>20 640</u>  |
| <b>CASH FLOWS RELATED TO<br/>INVESTMENT ACTIVITIES</b>     |                |                |
| Acquisition of fixed assets                                | <u>(2 614)</u> | <u>(2 828)</u> |
| <b>CASH FLOWS RELATED TO<br/>FINANCING ACTIVITIES</b>      |                |                |
| Short-term borrowings                                      | <u>444</u>     | <u>950</u>     |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>               | 20 479         | 18 762         |
| <b>CASH AND CASH EQUIVALENTS,<br/>BEGINNING OF YEAR</b>    | <u>29 927</u>  | <u>11 165</u>  |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR (Note 6)</b> | <u>50 406</u>  | <u>29 927</u>  |

**SOCIÉTÉ D'HABITATION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2004

(in thousands of dollars)

**1. CONSTITUTION AND PURPOSE**

The Société d'habitation du Québec 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 Société d'habitation du Québec 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 Société d'habitation du Québec 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.

**2. ACCOUNTING POLICIES**

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**a. Contributions**

Contributions for program costs and the fiscal year's administrative costs are recorded as revenue when the costs related to these programs and administrative costs are also recorded.

The Canada Mortgage and Housing Corporation acts on behalf of the Government of Canada concerning the programs contemplated by Canada-Québec framework agreements.

**b. Program costs**

Subsidies for program costs are recorded to expenditures when the events related to them occur provided they had been authorized and the beneficiaries met the eligibility criteria, where applicable.

**c. Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**d. Cash and cash equivalents**

Cash and cash equivalents comprise cash and highly liquid short-term investments that can easily be converted into a known amount of cash, whose value is unlikely to change significantly.

## SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at December 31, 2004  
(in thousands of dollars)

## 2. ACCOUNTING POLICIES (cont'd)

## e. Fixed assets

Fixed assets are recorded at cost.

Computer development includes the cost of system design, execution, implementation and improvement.

Fixed assets are amortized using the straight-line method over their estimated service life:

|                      |         |
|----------------------|---------|
| Computer development | 5 years |
| Equipment            | 3 years |

## f. Provision for losses on loan guarantees

This provision is established by applying a rate based on past experience to the guaranteed loans.

## 3. PROGRAM COSTS AND CONTRIBUTIONS

| Program                                                | 2004           |                        |                | 2003           |                        |                |
|--------------------------------------------------------|----------------|------------------------|----------------|----------------|------------------------|----------------|
|                                                        | Cost           | Contributions          |                | Cost           | Contributions          |                |
|                                                        |                | Gouvernement du Québec | CMHC (a)       |                | Gouvernement du Québec | CMHC (a)       |
| <b>Affordable, community social housing assistance</b> |                |                        |                |                |                        |                |
| Non-profit housing (b)                                 |                |                        |                |                |                        |                |
| Public                                                 |                |                        |                |                |                        |                |
| Regular component                                      | 219 656        | 89 828                 | 129 828        | 207 143        | 84 207                 | 122 936        |
| Inuit component                                        | 56 590         | 25 756                 | 30 834         | 57 124         | 24 992                 | 32 132         |
|                                                        | <u>276 246</u> | <u>115 584</u>         | <u>160 662</u> | <u>264 267</u> | <u>109 199</u>         | <u>155 068</u> |
| Private                                                |                |                        |                |                |                        |                |
| Housing cooperatives and non-profit organizations      | 26 096         | 6 524                  | 19 572         | 25 506         | 6 395                  | 19 111         |
| Native housing – urban                                 | 7 192          | 1 813                  | 5 379          | 6 877          | 1 735                  | 5 142          |
| Native housing – rural                                 | 6 031          | 1 517                  | 4 514          | 5 690          | 1 431                  | 4 259          |
|                                                        | <u>39 319</u>  | <u>9 854</u>           | <u>29 465</u>  | <u>38 073</u>  | <u>9 561</u>           | <u>28 512</u>  |
| Amounts carried forward                                | <u>315 565</u> | <u>125 438</u>         | <u>190 127</u> | <u>302 340</u> | <u>118 760</u>         | <u>183 580</u> |

## SOCIÉTÉ D'HABITATION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in thousands of dollars)

## 3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

| Program                                                            | 2004    |                        |          | 2003    |                        |          |
|--------------------------------------------------------------------|---------|------------------------|----------|---------|------------------------|----------|
|                                                                    | Cost    | Contributions          |          | Cost    | Contributions          |          |
|                                                                    |         | Gouvernement du Québec | CMHC (a) |         | Gouvernement du Québec | CMHC (a) |
| Affordable, community social housing assistance (cont'd)           |         |                        |          |         |                        |          |
| Non-profit housing (b) (cont'd)                                    |         |                        |          |         |                        |          |
| Amounts carried forward                                            | 315 565 | 125 438                | 190 127  | 302 340 | 118 760                | 183 580  |
| Housing allowance for the elderly and families                     | 89 737  | 89 737                 |          | 91 480  | 91 480                 |          |
| AccèsLogis Québec for non-profit - cooperative housing             | 45 013  | 9 146                  | 35 867   | 91 350  | 11 686                 | 79 664   |
| Rent supplement                                                    | 40 111  | 20 946                 | 19 165   | 39 150  | 20 701                 | 18 449   |
| Logement abordable Québec                                          |         |                        |          |         |                        |          |
| Social and community component                                     | 13 794  | 949                    | 12 845   | 5 153   | 202                    | 4 951    |
| Private component                                                  | 2 627   | 20                     | 2 607    | 394     |                        | 394      |
| Kativik region component                                           | (30)    | (38)                   | 8        | 3 327   |                        | 3 327    |
| Emergency assistance in the context of the rental housing shortage |         |                        |          |         |                        |          |
| 2002 program                                                       | 1 124   | 1 124                  |          | 3 719   | 3 719                  |          |
| 2003 program                                                       | 4 117   | 4 117                  |          | 3 554   | 3 554                  |          |
| 2004 program                                                       | 6 896   | 6 896                  |          |         |                        |          |
| Achat-Rénovation for non-profit, cooperative housing               | 3 173   | 3 173                  |          | 2 160   | 2 160                  |          |
| Assistance for community organizations                             | 1 120   | 1 120                  |          | 1 120   | 1 120                  |          |
| Housing initiative in Nunavik                                      | 303     | 303                    |          | 202     | 202                    |          |
| Achat-Rénovation for owner occupants in the Kativik area           | 5       | 5                      |          | 5       | 5                      |          |
| Sub-total (amounts carried forward)                                | 523 555 | 262 936                | 260 619  | 543 954 | 253 589                | 290 365  |

## SOCIÉTÉ D'HABITATION DU QUÉBEC

## NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2004

(in thousands of dollars)

**3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)**

| Program                                                                    | 2004    |                        |          | 2003    |                        |          |
|----------------------------------------------------------------------------|---------|------------------------|----------|---------|------------------------|----------|
|                                                                            | Cost    | Contributions          |          | Cost    | Contributions          |          |
|                                                                            |         | Gouvernement du Québec | CMHC (a) |         | Gouvernement du Québec | CMHC (a) |
| Amounts brought forward                                                    | 523 555 | 262 936                | 260 619  | 543 954 | 253 589                | 290 365  |
| <b>Housing improvement</b>                                                 |         |                        |          |         |                        |          |
| Rénovation Québec                                                          | 11 879  | 932                    | 10 947   | 2       | 2                      |          |
| RénoVillage                                                                | 11 461  | 3 818                  | 7 643    | 11 166  | 5 018                  | 6 148    |
| Assistance program for the improvement of nursing homes                    | 6 087   | 4 711                  | 1 376    | 6 779   | 5 465                  | 1 314    |
| Assistance for owners of residential buildings damaged by pyrite oxidation | 2 629   | 2 003                  | 626      | 3 915   | 2 698                  | 1 217    |
| Assistance program for the revitalization of core areas                    | 2 462   | 2 462                  |          | 5 215   | 5 215                  |          |
| Improvements to shelters                                                   | 1 699   | 372                    | 1 327    | 1 168   | 367                    | 801      |
| Emergency repairs                                                          | 1 218   | 345                    | 873      | 737     | 223                    | 514      |
| Purchase assistance in Radisson                                            | 555     | 555                    |          | 107     | 107                    |          |
| Home adaptations for greater autonomy of seniors                           | 301     | 95                     | 206      | 120     | 25                     | 95       |
| Rénovation résidentielle – Radisson                                        | 98      | 98                     |          | 436     | 436                    |          |
| Radon                                                                      | 9       | 9                      |          | 23      | 23                     |          |
| Sub-total                                                                  | 38 398  | 15 400                 | 22 998   | 29 668  | 19 579                 | 10 089   |
| <b>Access to home ownership</b>                                            |         |                        |          |         |                        |          |
| Access to home ownership for residents of the Kativik area                 | 309     | 309                    |          | 203     | 203                    |          |
| Housing in isolated regions                                                | 64      | 64                     |          | 125     | 125                    |          |
| Sub-total                                                                  | 373     | 373                    |          | 328     | 328                    |          |
| <b>Industrial support</b>                                                  |         |                        |          |         |                        |          |
| Support for the development of the Québec housing industry                 | 688     | 688                    |          | 653     | 653                    |          |
| <b>Various program in the termination phase (c)</b>                        |         |                        |          |         |                        |          |
|                                                                            | 124     | 100                    | 24       | (559)   | (547)                  | (12)     |
| Total                                                                      | 563 138 | 279 497                | 283 641  | 574 044 | 273 602                | 300 442  |

**SOCIÉTÉ D'HABITATION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2004

(in thousands of dollars)

**3. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)**

| Program                          | 2004 |                                      | 2003 |                                      |
|----------------------------------|------|--------------------------------------|------|--------------------------------------|
|                                  | Cost | Contributions                        | Cost | Contributions                        |
|                                  |      | Gouvernement du Québec      CMHC (a) |      | Gouvernement du Québec      CMHC (a) |
| <b>Contributions</b>             |      |                                      |      |                                      |
| Cost of program                  |      | 279 497      283 641                 |      | 273 602      300 442                 |
| Administrative expenses (Note 5) |      | 24 492      5 614                    |      | 25 362      5 187                    |
|                                  |      | <u>303 989</u> <u>289 255</u>        |      | <u>298 964</u> <u>305 629</u>        |

a) Canada Mortgage and Housing Corporation.

b) In 2004, the Société d'habitation du Québec paid the Société de gestion immobilière SHQ a total of \$1.9 million (2003: \$5.6 million) for non-profit housing.

c) The various programs in the termination phase grouped together in this item are: Rental building renovation, Canada-Québec Rehabilitation Assistance, VirageRénovation (Home renovation stimulation program), Downpayment Assistance, Renovation Assistance and Assistance for Community Housing.

**4. FEES**

|                                    | 2004       | 2003       |
|------------------------------------|------------|------------|
| Immobilière SHQ                    | 685        | 609        |
| Société de gestion immobilière SHQ | 32         | 47         |
| Gouvernement du Québec             | 65         | 39         |
| Miscellaneous organizations        | 194        | 148        |
|                                    | <u>976</u> | <u>843</u> |

**5. ADMINISTRATIVE EXPENSES**

|                                            | 2004          | 2003          |
|--------------------------------------------|---------------|---------------|
| Salaries and other remuneration (Note 15)  | 22 602        | 22 554        |
| Transportation and communications          | 1 391         | 1 364         |
| Professional services                      | 3 464         | 2 697         |
| Maintenance and repairs                    | 344           | 336           |
| Rent                                       | 2 383         | 2 425         |
| Materials and supplies                     | 160           | 466           |
| Miscellaneous subsidies                    | 10            | 56            |
| Interest on short-term borrowings (Note 9) | 106           | 112           |
| Depreciation of fixed assets               | 2 112         | 1 948         |
| Other                                      | 43            | 109           |
|                                            | <u>32 615</u> | <u>32 067</u> |



**SOCIÉTÉ D'HABITATION DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at December 31, 2004  
(in thousands of dollars)

**5. ADMINISTRATIVE EXPENSES (cont'd)**

These administrative expenses are offset, to a great extent, by the following contributions:

|                                         | 2004          | 2003          |
|-----------------------------------------|---------------|---------------|
| Gouvernement du Québec                  | 24 492        | 25 362        |
| Canada Mortgage and Housing Corporation | 5 614         | 5 187         |
|                                         | <u>30 106</u> | <u>30 549</u> |

**6. CASH AND CASH EQUIVALENTS**

|                                                | 2004          | 2003          |
|------------------------------------------------|---------------|---------------|
| Cash on hand                                   | 1 240         | 1 261         |
| Short-term investment, at cost, 2.67% to 2.84% | 49 166        | 28 666        |
|                                                | <u>50 406</u> | <u>29 927</u> |

**7. ACCOUNTS RECEIVABLE**

|                                         | 2004          | 2003           |
|-----------------------------------------|---------------|----------------|
| Contribution receivable                 |               |                |
| Gouvernement du Québec                  | 21 074        | 9 760          |
| Canada Mortgage and Housing Corporation | 50 257        | 108 473        |
| Subsidy beneficiaries                   | 6 456         | 8 040          |
| Société de gestion immobilière SHQ      | 486           | 159            |
| Accrued interest                        | 81            | 85             |
| Other                                   | 136           | 201            |
|                                         | <u>78 490</u> | <u>126 718</u> |

**8. FIXED ASSETS**

|                      | 2004   |                          |       | 2003  |
|----------------------|--------|--------------------------|-------|-------|
|                      | Cost   | Accumulated depreciation | Net   | Net   |
| Computer development | 11 182 | 7 423                    | 3 759 | 3 082 |
| Equipment            | 5 453  | 4 260                    | 1 193 | 1 368 |
|                      | 16 635 | 11 683                   | 4 952 | 4 450 |

**9. SHORT-TERM BORROWING**

The Société d'habitation du Québec is authorized to take up short-term borrowings from financial institutions to a maximum of \$30 million.

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 December 31, 2004 was 2.64%.

Interest on the short-term borrowing for the fiscal year is posted to expenditures under "Administrative – Interest with short-term borrowing" (Note 5).

**SOCIÉTÉ D'HABITATION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2004

(in thousands of dollars)

**10. ACCOUNTS PAYABLE**

|                                                    | 2004          | 2003          |
|----------------------------------------------------|---------------|---------------|
| Subsidy beneficiaries                              | 59 404        | 97 275        |
| Suppliers and other                                | 1 148         | 1 397         |
| Société de gestion immobilière SHQ                 | 358           | 361           |
| Sums held on behalf of granting agencies (Note 14) | 261           | 212           |
| Gouvernement du Québec                             | 45            | 65            |
| Accrued interest                                   | 6             | 6             |
|                                                    | <u>61 222</u> | <u>99 316</u> |

**11. PROVISION FOR VACATION TIME AND SICK LEAVE**

|                               | 2004             |               | 2003             |               |
|-------------------------------|------------------|---------------|------------------|---------------|
|                               | Vacation<br>time | Sick<br>leave | Vacation<br>time | Sick<br>leave |
| Opening balance               | 2 371            | 6 153         | 2 445            | 5 769         |
| Provision for the year        | 1 826            | 681           | 1 947            | 682           |
| Benefits paid during the year | <u>(1 951)</u>   | <u>(743)</u>  | <u>(2 021)</u>   | <u>(298)</u>  |
| Closing balance               | <u>2 246</u>     | <u>6 091</u>  | <u>2 371</u>     | <u>6 153</u>  |

**12. 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 designed to cover the expenses of future fiscal years under the AccèsLogis Québec program for cooperative and non-profit housing and for the Logement abordable Québec program. Variations during the fiscal year in the balance of the deferred contribution are as follows:

|                                                         | 2004            | 2003            |
|---------------------------------------------------------|-----------------|-----------------|
| Opening balance                                         | 48 805          |                 |
| New contributions for fiscal year                       | <u>60 119</u>   | <u>133 694</u>  |
|                                                         | 108 924         | 133 694         |
| Contributions posted to revenues<br>for the fiscal year | <u>(49 529)</u> | <u>(84 889)</u> |
| Closing balance                                         | <u>59 395</u>   | <u>48 805</u>   |

**SOCIÉTÉ D'HABITATION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2004

(in thousands of dollars)

**13. ALLOWANCE FOR LOSSES ON LOAN GUARANTEES**

|                          | 2004         | 2003         |
|--------------------------|--------------|--------------|
| Opening balance          | 7 804        | 7 584        |
| Allowance for the year   | 1 116        | 1 273        |
| Fulfilment of guarantees | (325)        | (1 053)      |
| Closing balance          | <u>8 595</u> | <u>7 804</u> |

The allowance breaks downs by programs as follows:

|                                                            | 2004         | 2003         |
|------------------------------------------------------------|--------------|--------------|
| Programs                                                   |              |              |
| AccèsLogis Québec for non-profit, cooperative housing      | 4 869        | 5 566        |
| Achat-Rénovation for non-profit, cooperative housing       | 1 889        | 843          |
| Non-profit housing – Private                               | 562          | 637          |
| Assistance for community housing                           | 556          | 587          |
| Logement abordable Québec – social and community component | 719          | 171          |
|                                                            | <u>8 595</u> | <u>7 804</u> |

A recoverable Gouvernement du Québec contribution is recorded to cover this provision.

**14. SUMS HELD ON BEHALF OF GRANTING AGENCIES**

The sums received from granting agencies under the AccèsLogis Québec and the Achat-Rénovation programs for non-profit, cooperative housing are redistributed to organizations working in the non-profit, cooperative housing sector.

|                  | 2004         | 2003         |
|------------------|--------------|--------------|
| Opening balance  | 212          | 80           |
| Plus:            |              |              |
| Sums received    | 1 798        | 1 191        |
| Interest income  | 6            | 7            |
|                  | <u>2 016</u> | <u>1 278</u> |
| Less:            |              |              |
| Amounts paid out | <u>1 755</u> | <u>1 066</u> |
| Closing balance  | <u>261</u>   | <u>212</u>   |

The amount held at year-end is posted to "Cash and cash equivalent" and "Accounts receivable" under the heading "Assets" and to "Accounts payable" under the heading "Liabilities".

**SOCIÉTÉ D'HABITATION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2004

(in thousands of dollars)

**15. PENSION PLANS**

The staff members of the Société participate in the Pension Plan of Management Personnel (PPMP), the Government and Public Employees Retirement Plan (RREGOP) or the Civil Service Superannuation Plan (CSSP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement or death.

The Société's contributions charged to the year-end statement and recorded as administrative expenses amount to \$0.8 million (2003: \$0.8 million). The Société's liability towards these government plans is restricted to its contributions as an employer.

**16. FINANCIAL INSTRUMENTS**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The fair value of the provision for losses on loan guarantees and the corresponding Gouvernement du Québec contribution receivable is equal to the book value given that the provision is reassessed annually.

**17. COMMITMENTS**

**AccèsLogis Québec program for non-profit, cooperative housing, Achat-Rénovation program for non-profit, cooperative housing Rénovation Québec, Revitalisation des vieux quartiers et Logement abordable Québec – social, community and private components.**

The Société repays the principal and interest on all loans contracted under these programs, up to the grant amount committed by the Société. As at December 31, 2004, these commitments amount to \$157 million (2003: \$89 million).

**18. CONTINGENCIES****Secured loans**

For the AccèsLogis Québec program for non-profit cooperative housing, Achat-Rénovation program for non-profit, cooperative housing et Logement abordable – Social et communautaire, the Société guarantees the reimbursement of loans granted by financial institutions. These loan repayment guarantees cover a period of 25 or 35 years once the Société agrees to the extension for the AccèsLogis Québec and Logement abordable – social and community programs and 25 years for the Achat renovation program. The amount of loans thus guaranteed totalled \$397 million at December 31, 2004 (2003: \$297 million).

The Société 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 Société 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 which are subject to these agreements totalled approximately \$386 million as at December 31, 2004 (2003: \$398 million).

Programs for which a provision for losses is required are disclosed in Note 13.

**Housing initiative in Nunavik program**

Under this program, the Société made the commitment to make a contribution equal to the amounts cashed by the Office municipal d'habitation Kativik in rental arrears prior to December 31, 1999 up to an amount of \$2.9 million. The balance of this commitment was \$1.9 million at December 31, 2004 (2003: \$2.2 million).

**SOCIÉTÉ D'HABITATION DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2004

(in thousands of dollars)

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**18. CONTINGENCIES (cont'd)****Lawsuits**

The balance of court proceedings in damages and interest instituted against the Société amounts to \$4.6 million. In the opinion of the Société, 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 Société. In the Société's opinion, no major liability can result from these proceedings.

**19. 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 either joint control or significant influence by it. The Société 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.

**20. COMPARATIVE FIGURES**

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

**SOCIÉTÉ D'HABITATION DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Société d'habitation du Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the 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 internal audit and investigations department carries out 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 oversees the manner in which management performs its financial reporting duties, meets with management and the Auditor General, and reviews the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Pierre Cliche  
President and Chief Executive Officer

Yves Poirier  
Vice-President, Administration and Business Strategies

Québec, March 18, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have examined the balance sheet of the Société d'habitation du Québec as at December 31, 2004, the statements of the statements of revenue and expenditure and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at December 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, March 18, 2005

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**  
(R.S.Q., c. S-14.001)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                                                                          | 2005              | 2004              |
|------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>REVENUE</b>                                                                           |                   |                   |
| Rental of space for events                                                               | \$1 973 964       | \$2 008 927       |
| Royalties (Note 3)                                                                       | 1 712 776         | 1 299 676         |
| Auxiliary operations (Note 4)                                                            | 1 599 701         | 1 658 992         |
|                                                                                          | <u>5 286 441</u>  | <u>4 967 595</u>  |
| <b>EXPENSES</b>                                                                          |                   |                   |
| Hosting of events - expenses (Note 5)                                                    | 1 436 357         | 1 415 603         |
| Administrative and operating expenses (Note 6)                                           | 8 309 005         | 8 170 356         |
| Taxes                                                                                    | 3 442 829         | 3 519 468         |
| Financial expenses – net (Note 7)                                                        | 2 818 622         | 3 003 705         |
| Other revenue                                                                            | <u>(254 190)</u>  | <u>(264 364)</u>  |
|                                                                                          | <u>15 752 623</u> | <u>15 844 768</u> |
| <b>DEFICIT OF REVENUE OVER EXPENDITURE BEFORE<br/>OPERATING SUBSIDY AND OTHER ITEMS:</b> | (10 466 182)      | (10 877 173)      |
| Operating subsidy from the Gouvernement du Québec (Note 9)                               | <u>10 057 159</u> | <u>10 721 008</u> |
| <b>(DEFICIT) EXCESS REVENUE OVER EXPENDITURE<br/>THE FOLLOWING ITEMS:</b>                | (409 023)         | (156 165)         |
| Gain on disposal of fixed assets                                                         | 1 625             | 5 050             |
| Gouvernement du Québec subsidy for fixed assets<br>and deferred expenses (Note 9)        | 2 008 347         | 2 099 334         |
| Depreciation of fixed assets                                                             | (2 930 242)       | (2 830 684)       |
| Amortization of intangible assets                                                        | (118 563)         | (95 491)          |
| Amortization of deferred contributions (Note 14)                                         | 1 093 811         | 863 167           |
| Amortization of deferred expenses                                                        | <u>(59 354)</u>   | <u>(59 354)</u>   |
| <b>DEFICIT REVENUE OVER EXPENDITURE</b>                                                  | (413 399)         | (174 143)         |
| <b>SURPLUS, BEGINNING OF YEAR</b>                                                        | <u>931 687</u>    | <u>1 105 830</u>  |
| <b>SURPLUS, END OF YEAR</b>                                                              | <u>\$518 288</u>  | <u>\$931 687</u>  |

The notes are an integral part of these financial statements.

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**BALANCE SHEET  
as at March 31, 2005

|                                                         | 2005                       | 2004                       |
|---------------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                           |                            |                            |
| <b>Current assets</b>                                   |                            |                            |
| Cash on hand (Note 9)                                   | \$4 420 742                | \$1 149 922                |
| Term deposits at rate of 2.35%                          | 500 000                    | 1 900 000                  |
| Accounts receivable                                     | 541 254                    | 804 703                    |
| Prepaid expenses                                        | 958 997                    | 938 721                    |
|                                                         | <u>6 420 993</u>           | <u>4 793 346</u>           |
| <b>Fixed assets</b> (Note 10)                           | 85 767 955                 | 87 734 122                 |
| <b>Intangible assets</b> (Note 11)                      | 381 848                    | 500 411                    |
| <b>Deferred expenses at amortized cost</b>              | <u>133 569</u>             | <u>192 922</u>             |
|                                                         | <u><u>\$92 704 365</u></u> | <u><u>\$93 220 801</u></u> |
| <b>LIABILITIES</b>                                      |                            |                            |
| <b>Current liabilities</b>                              |                            |                            |
| Accounts payable (Note 13)                              | \$2 914 256                | \$3 475 434                |
| Customer deposits                                       | 779 834                    | 837 697                    |
| Deferred revenues                                       | 158 905                    | 90 897                     |
| Deferred Gouvernement du Québec subsidy (Note 9)        | 3 465 979                  | 733 964                    |
| Instalments on long-term debt (Note 15)                 | 3 723 125                  | 3 558 583                  |
|                                                         | <u>11 042 099</u>          | <u>8 696 575</u>           |
| <b>Deferred Gouvernement du Québec subsidy</b> (Note 9) | 5 763 847                  | 4 129 354                  |
| <b>Deferred contributions</b> (Note 14)                 | 25 720 447                 | 26 080 376                 |
| <b>Long-term debt</b> (Note 15)                         | <u>48 127 434</u>          | <u>51 850 559</u>          |
|                                                         | <u>90 653 827</u>          | <u>90 756 864</u>          |
| <b>EQUITY</b>                                           |                            |                            |
| Contributed surplus (Note 16)                           | 1 532 250                  | 1 532 250                  |
| Surplus                                                 | <u>518 288</u>             | <u>931 687</u>             |
|                                                         | <u>2 050 538</u>           | <u>2 463 937</u>           |
|                                                         | <u><u>\$92 704 365</u></u> | <u><u>\$93 220 801</u></u> |

**COMMITMENTS** (Note 19)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 Claude Pinault, Chairman of Board of Directors and Director  
 Paule-Anne Morin, Director, Adm. A., CMC



**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC****CASH FLOWS**

for the year ended March 31, 2005

|                                                         | <u>2005</u>               | <u>2004</u>               |
|---------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                             |                           |                           |
| Cash receipts – clients                                 | \$5 799 750               | \$6 137 728               |
| Cash receipts – Government                              | 17 165 895                | 12 200 001                |
| Disbursements – suppliers and staff members             | (13 315 872)              | (13 176 469)              |
| Interest earned                                         | 80 789                    | 141 582                   |
| Interest paid                                           | <u>(2 970 143)</u>        | <u>(3 177 931)</u>        |
| Cash flows related to operating activities              | <u>6 760 419</u>          | <u>2 124 911</u>          |
| <b>INVESTMENT ACTIVITIES</b>                            |                           |                           |
| Acquisition of fixed assets                             | (1 332 641)               | (400 024)                 |
| Proceeds from the sale of fixed assets                  | <u>1 625</u>              | <u>5 050</u>              |
| Cash flows related to investment activities             | <u>(1 331 016)</u>        | <u>(394 974)</u>          |
| <b>FINANCING ACTIVITIES</b>                             |                           |                           |
| Repayment of long-term debt                             | <u>(3 558 583)</u>        | <u>(3 402 683)</u>        |
| Cash flows related to financing activities              | <u>(3 558 583)</u>        | <u>(3 402 683)</u>        |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> | 1 870 820                 | (1 672 746)               |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <u>3 049 922</u>          | <u>4 722 668</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>           | <u><u>\$4 920 742</u></u> | <u><u>\$3 049 922</u></u> |

Cash and cash equivalents include the following amounts recorded in the financial statements:

|               | <u>2005</u>               | <u>2004</u>               |
|---------------|---------------------------|---------------------------|
| Cash on hand  | \$4 420 742               | \$1 149 922               |
| Term deposits | <u>500 000</u>            | <u>1 900 000</u>          |
|               | <u><u>\$4 920 742</u></u> | <u><u>\$3 049 922</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

**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. Its purpose is to:

- manage and operate the Centre des congrès de Québec;
- prepare development or operational plans for the Centre des congrès;
- carry on such commercial and other activities as may foster the development of the Centre des congrès and take up their operation, promotion and management.

Under section 3 of its incorporating legislation, the Société is not subject to Québec or Canadian income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Société were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Term deposits**

Term deposits are recorded at cost or market value, whichever is less.

**Deferred Gouvernement du Québec subsidy**

The deferred subsidy from the Government corresponds to the difference between the interest expenses accrued on borrowings from the Financing Fund for the acquisition of fixed assets plus the accumulated depreciation on the portion of these assets (net of accumulated amortization of deferred contributions) and acquisitions of non-capitalizable property financed by these borrowings, and the subsidies received from the Gouvernement du Québec to pay back these borrowings.

**Fixed assets**

The land and building, which were acquired for a nominal fee of \$1, were recorded at their municipal assessment value on the date of acquisition. Other fixed assets are recorded at cost.

Fixed assets are depreciated over the term of their anticipated service life according to the straight-line method as follows:

|                         |               |
|-------------------------|---------------|
| Buildings               | 40 years      |
| Furniture and equipment | 3 and 5 years |
| Layout                  | 10 years      |

**Intangible assets**

Intangible assets, comprising software, are recorded at cost and amortized based on the probable length of their use according to the straight-line method.

|          |         |
|----------|---------|
| Software | 5 years |
|----------|---------|

**Deferred expenses**

Long-term debt issuing and management expenses are deferred and amortized using the straight-line method over the duration of the borrowing.

## SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 2. ACCOUNTING POLICIES (cont'd)

#### Gouvernement du Québec subsidy

The Société records and distributes the Gouvernement du Québec subsidy as follows:

- *Operating subsidy*
  - Contribution for the payment of interest on the long-term debt contracted to finance fixed assets and for the acquisition of non-capitalizable property funded.
  - Contribution for other expenses during the year.
- *Subsidy for fixed assets and deferred expenses*
  - Contribution for repayment of the long-term debt contracted to finance depreciable fixed assets and related costs correspond to the amortization of these fixed assets and deferred long-term debt issuing and management costs.
- *Deferred contributions*
  - Contributions for the acquisition of depreciable fixed assets.

#### Deferred contributions

Contributions received for the acquisition of depreciable fixed assets and contributions in the form of depreciable fixed assets are deferred and transferred to revenue using the same methods and service life as those used for the depreciation of the fixed assets to which they refer.

#### 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. Results 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.

#### Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances, short-term borrowings and short-term investments that are easy to convert in the short term to a known amount of cash whose value is not expected to change significantly.

#### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

### 3. ROYALTIES

|                      | 2005               | 2004               |
|----------------------|--------------------|--------------------|
| Food services        | \$1 388 297        | \$937 504          |
| Audiovisual services | 304 949            | 311 164            |
| Other                | 19 530             | 51 008             |
|                      | <u>\$1 712 776</u> | <u>\$1 299 676</u> |

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. AUXILIARY OPERATIONS**

|                                       | 2005               | 2004               |
|---------------------------------------|--------------------|--------------------|
| Furnishings and furniture             | \$739 235          | \$722 958          |
| Electricity, plumbing                 | 393 982            | 392 603            |
| Telecommunications                    | 210 699            | 310 854            |
| Audiovisual, sound and lighting       | 79 987             | 69 431             |
| Information, box office and cloakroom | 76 856             | 67 382             |
| Security                              | 36 297             | 47 449             |
| Cleaning services                     | 18 933             | 16 093             |
| Other                                 | 43 712             | 32 222             |
|                                       | <u>\$1 599 701</u> | <u>\$1 658 992</u> |

**5. HOSTING OF EVENTS - EXPENSES**

|                                       | 2005               | 2004               |
|---------------------------------------|--------------------|--------------------|
| Furnishings and furniture             | \$756 728          | \$773 706          |
| Electricity, plumbing                 | 149 431            | 156 831            |
| Telecommunications                    | 18 947             | 31 964             |
| Audiovisual, sound and lighting       | 10 337             | 6 805              |
| Information, box office and cloakroom | 210 752            | 184 717            |
| Security                              | 112 963            | 110 635            |
| Cleaning services                     | 126 226            | 109 164            |
| Other                                 | 50 973             | 41 781             |
|                                       | <u>\$1 436 357</u> | <u>\$1 415 603</u> |

**6. OPERATING AND ADMINISTRATIVE EXPENSES**

|                                          | 2005               | 2004               |
|------------------------------------------|--------------------|--------------------|
| Salaries and fringe benefits             | \$4 130 515        | \$3 820 381        |
| Insurance and permits                    | 148 048            | 130 977            |
| Power and heating                        | 761 928            | 694 726            |
| Caretaking                               | 339 193            | 320 635            |
| Cleaning services                        | 222 773            | 179 064            |
| Specialized maintenance services         | 709 212            | 692 216            |
| Maintenance and repairs                  | 855 987            | 1 078 681          |
| Promotion and communication              | 751 595            | 846 073            |
| Professional and administrative services | 280 525            | 281 688            |
| Professional development                 | 99 865             | 114 444            |
| Bad and doubtful debts                   | 9 364              | 11 471             |
|                                          | <u>\$8 309 005</u> | <u>\$8 170 356</u> |

**7. NET FINANCIAL EXPENSES**

|                                             | 2005               | 2004               |
|---------------------------------------------|--------------------|--------------------|
| Interest on long-term debt                  | \$2 874 825        | \$3 075 961        |
| (Gain) Exchange loss                        | (2 210)            | 27 310             |
| Other interest and bank expenses            | 12 321             | 9 098              |
|                                             | <u>2 884 936</u>   | <u>3 112 369</u>   |
| Interest on bank balances and term deposits | 66 314             | 108 664            |
|                                             | <u>\$2 818 622</u> | <u>\$3 003 705</u> |

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**8. FINANCIAL INSTRUMENTS**
**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.

**Credit risk**

The Société's exposure to credit risk corresponds to the book value of its financial assets. The credit risk related to its assets is not concentrated in a single activity sector. The Société evaluates its assets on an ongoing basis and records a provision for losses when the accounts are deemed uncollectible.

**Exchange risk**

The Société carries out certain operation in foreign currency. It does not hold or issue financial instruments in order to manage the risks to which it is exposed. However, these risks do not significantly influence the Société's results and financial position.

**Fair value**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

The following table shows the book value and fair value of the Société's long-term financial instruments determined by the capitalization of cash flows at the market rate for securities of a similar nature:

|                                               | 2005                |                     | 2004                |                     |
|-----------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                               | Book<br>value       | Fair<br>value       | Book<br>value       | Fair<br>value       |
| Long-term debt (including short-term portion) | <u>\$51 850 559</u> | <u>\$55 045 874</u> | <u>\$55 409 142</u> | <u>\$60 278 599</u> |

**9. GOUVERNEMENT DU QUÉBEC SUBSIDY**

|                                                                                                                                                                                                   | 2005                | 2004                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Operating subsidy:</b>                                                                                                                                                                         |                     |                     |
| Subsidy received for the year                                                                                                                                                                     | \$13 700 000        | \$14 200 000        |
| Use of the subsidy deferred in the short term for non-capitalizable expenses                                                                                                                      |                     | 236 498             |
| Receipt – Subsidy for debt service                                                                                                                                                                | <u>(6 518 615)</u>  | <u>(6 791 451)</u>  |
|                                                                                                                                                                                                   | 7 181 385           | 7 645 047           |
| Contribution for payment of interest on long-term debt and related short-term borrowings contracted to finance depreciable fixed assets and for the acquisition non-capitalizable property funded | <u>2 875 774</u>    | <u>3 075 961</u>    |
| Total of the operating subsidy                                                                                                                                                                    | 10 057 159          | 10 721 008          |
| <b>Subsidy for fixed assets and deferred expenses:</b>                                                                                                                                            | <u>2 008 347</u>    | <u>2 099 334</u>    |
|                                                                                                                                                                                                   | <u>\$12 065 506</u> | <u>\$12 820 342</u> |

As at March 31, 2005, the subsidy to be recovered from the Gouvernement du Québec amounts to \$9 229 826, including \$3 425 000 received in advance for the fiscal year ending March 31, 2006 (at March 31, 2004: \$4 863 318).

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. FIXED ASSETS**

|                         | 2005                 |                          | 2004                |                     |
|-------------------------|----------------------|--------------------------|---------------------|---------------------|
|                         | Cost                 | Accumulated depreciation | Net                 | Net                 |
| Land                    | \$5 618 150          |                          | \$5 618 150         | \$5 618 150         |
| Buildings               | 101 247 601          | \$22 484 167             | 78 763 434          | 80 869 587          |
| Furniture and equipment | 2 092 546            | 706 175                  | 1 386 371           | 1 246 385           |
|                         | <u>\$108 958 297</u> | <u>\$23 190 342</u>      | <u>\$85 767 955</u> | <u>\$87 734 122</u> |

The cost and accumulated depreciation of fixed assets as at March 31, 2004 amount to \$108 378 103 and \$20 643 981 respectively.

**11. INTANGIBLE ASSETS**

|          | 2005             |                          | 2004             |                  |
|----------|------------------|--------------------------|------------------|------------------|
|          | Cost             | Accumulated depreciation | Net              | Net              |
| Software | <u>\$595 902</u> | <u>\$214 054</u>         | <u>\$381 848</u> | <u>\$500 411</u> |

The cost and accumulated depreciation of intangible assets as at March 31, 2004 amount to \$595 902 and \$95 491 respectively.

**12. SHORT-TERM BORROWINGS**

The Société is authorized, under a short-term borrowing plan, to contract short-term borrowings to a maximum of \$4 000 000 until June 30, 2005. The borrowings contracted in this way will be refinanced in the long term. At March 31, 2005, the Société had no short-term borrowings.

**13. CREDITORS**

|                    | 2005               | 2004               |
|--------------------|--------------------|--------------------|
| Current operations | \$2 549 410        | \$2 742 022        |
| Fixed assets       | <u>364 846</u>     | <u>733 412</u>     |
|                    | <u>\$2 914 256</u> | <u>\$3 475 434</u> |

**14. DEFERRED CONTRIBUTIONS**

|                                                                                                      | 2005               | 2004               |
|------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Deferred Gouvernement du Québec contribution:</b>                                                 |                    |                    |
| Opening balance                                                                                      | \$1 801 301        | \$775 433          |
| Contribution for acquisition of fixed assets                                                         | <u>733 882</u>     | <u>1 133 436</u>   |
|                                                                                                      | 2 535 183          | 1 908 869          |
| Less:                                                                                                |                    |                    |
| Transfer to revenue of an amount equivalent to the depreciation of related fixed assets <sup>1</sup> | <u>338 212</u>     | <u>107 568</u>     |
| Amounts carried forward                                                                              | <u>\$2 196 971</u> | <u>\$1 801 301</u> |

## SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**14. DEFERRED CONTRIBUTIONS (cont'd)**

|                                                                                            | 2005                | 2004                |
|--------------------------------------------------------------------------------------------|---------------------|---------------------|
| Amounts brought forward                                                                    | <u>\$2 196 971</u>  | <u>\$1 801 301</u>  |
| <b>Deferred City of Québec contribution:</b>                                               |                     |                     |
| Opening balance                                                                            | 2 397 825           | 2 478 424           |
| Less:                                                                                      |                     |                     |
| Transfer to revenue of an amount equivalent to the depreciation of building <sup>1</sup>   | <u>80 599</u>       | <u>80 599</u>       |
|                                                                                            | <u>2 317 226</u>    | <u>2 397 825</u>    |
| <b>Deferred Government of Canada contribution:</b>                                         |                     |                     |
| Opening balance                                                                            | 21 881 250          | 22 556 250          |
| Less:                                                                                      |                     |                     |
| Transfer to revenue of an amount equivalent to the depreciation of building <sup>(1)</sup> | <u>675 000</u>      | <u>675 000</u>      |
|                                                                                            | <u>21 206 250</u>   | <u>21 881 250</u>   |
|                                                                                            | <u>\$25 720 447</u> | <u>\$26 080 376</u> |

<sup>1</sup> Amortization of deferred contributions for the year amounts to \$1 093 811 (March 31, 2004: \$863 167).

**15. LONG-TERM DEBT**

With the Gouvernement du Québec Financing Fund

|                                                                                                                        | 2005                | 2004                |
|------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Notes payable                                                                                                          |                     |                     |
| 5.468%/year (actual rate 5.599%), repayable in biannual instalments of \$2 873 946, ending April 26, 2007 <sup>1</sup> | \$48 592 039        | \$51 560 629        |
| 5.385%/year (actual rate 5.513%), repayable in biannual instalments, ending October 1, 2007 <sup>1</sup>               | 2 074 976           | 2 234 590           |
| 4.306%/year (actual rate 4.510%), repayable in biannual instalments, ending October 1, 2007 <sup>1</sup>               | <u>1 183 544</u>    | <u>1 613 923</u>    |
|                                                                                                                        | 51 850 559          | 55 409 142          |
| Instalments due within one year                                                                                        | <u>3 723 125</u>    | <u>3 558 583</u>    |
|                                                                                                                        | <u>\$48 127 434</u> | <u>\$51 850 559</u> |

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**15. LONG-TERM DEBT (cont'd)**

Repayment of the principal on the long-term debt over the next five fiscal years is as follows:

|            |             |
|------------|-------------|
| 2005– 2006 | \$3 723 125 |
| 2006– 2007 | 3 896 786   |
| 2007– 2008 | 42 634 513  |
| 2008– 2009 | 159 614     |
| 2009– 2010 | 159 614     |

<sup>1</sup> The Government committed to paying the Société the sums required to discharge its obligations regarding borrowings from the Financing Fund for the acquisition of fixed assets, after ensuring that the Société is unable to discharge them itself.

**16. CONTRIBUTED SURPLUS**

Transfer by the City of Québec, on January 1, 1994, for the nominal fee of \$1, of a building recorded at its municipal assessment on that date.

**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 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 either joint control or significant influence by it. The Société 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.

**18. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel. These are interenterprise defined-benefit plans and include guaranteed payments upon retirement and death.

The Société's liability towards this Government plan is restricted to its contributions as an employer. The Société's contributions charged to the year-end statement amount to \$125 600 (March 31, 2004: \$107 163).

**19. COMMITMENTS****Long-term contracts**

The Société is committed under long-term contracts terminating on various dates up to June 30, 2007 for regular and specialized maintenance services.

Minimum future payments under these commitments are as follows:

|           |                  |
|-----------|------------------|
| 2005-2006 | \$410 588        |
| 2006-2007 | 137 590          |
|           | <u>\$548 178</u> |



## SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

### 19. COMMITMENTS (cont'd)

#### Old Centre municipal des congrès renovation project

During the fiscal year, the Société was authorized, by Gouvernement du Québec order-in-council, to renovate the old Centre municipal des congrès and contract borrowings of up to \$17.2M to finance the project.

An agreement was then reached by the Société, as owner of the building, and the Société immobilière du Québec (SIQ), as project manager, defining each party's obligations.

Work on the project was scheduled to be done between August 1, 2005 and March 31, 2006. Among other things, the Société committed to reimbursing the SIQ for the cost of work on presentation of an invoice totalling a maximum of \$17 116 317.

### 20. COMPARATIVE FIGURES

Certain 2003-2004 figures were reclassified for consistency with the presentation adopted in 2004-2005.

## MANAGEMENT'S REPORT

The financial statements of the Société du Centre des congrès de Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the 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 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, meets with management and the Auditor General, and reviews the financial statements. It is assisted by an auditing committee whose members are not 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 the auditing standards that are generally accepted in Canada. 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

Claude Pinault  
President and Chief Executive Officer

Québec, June 3, 2005

**SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Société du Centre des congrès de Québec as at March 31, 2005, the statement of revenue and expenditure and surplus and the cash flow statement for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with 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 General of Québec

Québec, June 3, 2005

**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**  
(R.S.Q., c. S-14.01)

**RESULTS**  
for the year ended August 31, 2004

|                                                     | 2004              |                           | 2003             |
|-----------------------------------------------------|-------------------|---------------------------|------------------|
|                                                     | Operating Fund    | Cultural Development Fund | Total            |
|                                                     |                   |                           | Total            |
| <b>REVENUE</b>                                      |                   |                           |                  |
| Gouvernement du Québec subsidies (Note 4)           | \$4 339 026       |                           | \$4 382 620      |
| Performance production and presentation (Note 5)    | 1 460 151         |                           | 586 046          |
| Ticket office                                       | 1 881 735         |                           | 1 496 168        |
| Rent – auditoriums                                  | 1 082 694         |                           | 911 425          |
| Theatrical services                                 | 1 219 454         |                           | 1 102 126        |
| Customer service                                    | 141 829           |                           | 115 917          |
| Parking                                             | 123 619           |                           | 112 618          |
| Interest                                            | 103 039           |                           | 71 596           |
| Other                                               | 87 778            |                           | 90 064           |
|                                                     | <u>10 439 325</u> |                           | <u>8 868 580</u> |
| <b>EXPENDITURE</b>                                  |                   |                           |                  |
| Performance production and presentation (Note 5)    | 1 497 449         | \$35 000                  | 693 259          |
| Box office operations                               | 1 694 338         |                           | 1 354 981        |
| Auditorium operations                               | 397 313           |                           | 336 406          |
| Theatrical services                                 | 1 650 141         |                           | 1 434 550        |
| Marketing                                           | 587 791           |                           | 488 283          |
| Administrative services                             | 843 686           |                           | 692 951          |
| Maintenance and caretaking                          | 1 123 547         |                           | 1 052 541        |
| Electricity                                         | 393 981           |                           | 376 036          |
| Municipal and school taxes                          | 487 781           |                           | 539 896          |
| Interest                                            | 594 788           |                           | 636 199          |
| Depreciation of fixed assets                        | 1 112 683         |                           | 1 101 511        |
|                                                     | <u>10 383 498</u> | <u>35 000</u>             | <u>8 706 613</u> |
| <b>EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURE</b> | <u>\$55 827</u>   | <u>\$(35 000)</u>         | <u>\$161 967</u> |

**CHANGE IN FUND BALANCES**  
for the year ended August 31, 2004

|                                              | 2004             |                           | 2003               |
|----------------------------------------------|------------------|---------------------------|--------------------|
|                                              | Operating Fund   | Cultural Development Fund | Total              |
|                                              |                  |                           | Total              |
| <b>OPENING FUND BALANCE</b>                  | \$1 112 329      |                           | \$950 362          |
| Excess (Deficiency) revenue over expenditure | 55 827           | \$(35 000)                | 161 967            |
| Interfund transfer (Note 2)                  | (1 068 156)      | 1 068 156                 |                    |
| <b>CLOSING FUND BALANCE</b>                  | <u>\$100 000</u> | <u>\$1 033 156</u>        | <u>\$1 112 329</u> |

## SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

BALANCE SHEET  
as at August 31, 2004

|                                                                 | 2004                |                                 | 2003                |
|-----------------------------------------------------------------|---------------------|---------------------------------|---------------------|
|                                                                 | Operating<br>Fund   | Cultural<br>Development<br>Fund | Total               |
|                                                                 |                     |                                 | Total               |
| <b>ASSETS</b>                                                   |                     |                                 |                     |
| <b>Current assets</b>                                           |                     |                                 |                     |
| Cash on hand                                                    | \$1 791 982         |                                 | \$1 791 982         |
| Term deposits (Note 6)                                          | 1 726 722           |                                 | 1 726 722           |
| Accounts receivable                                             | 894 795             |                                 | 894 795             |
| Interfund payables, interest-free,<br>no repayment conditions   |                     | \$1 033 156                     |                     |
| Gouvernement du Québec subsidies<br>receivable (Note 7)         | 2 213 022           |                                 | 2 213 022           |
| Supplies inventory                                              | 74 913              |                                 | 74 913              |
| Prepaid expenses                                                | 162 073             |                                 | 162 073             |
|                                                                 | <u>6 863 507</u>    | <u>1 033 156</u>                | <u>6 863 507</u>    |
| <b>Cash reserved for constructions and<br/>renovations</b>      | 77 205              |                                 | 77 205              |
| <b>Gouvernement du Québec subsidies<br/>receivable (Note 7)</b> | 7 963 763           |                                 | 7 963 763           |
| <b>Fixed assets (Note 8)</b>                                    | 22 947 232          |                                 | 22 947 232          |
| <b>Deferred expenses</b>                                        | 31 957              |                                 | 31 957              |
|                                                                 | <u>\$37 883 664</u> | <u>\$1 033 156</u>              | <u>\$37 883 664</u> |
| <b>LIABILITIES</b>                                              |                     |                                 |                     |
| <b>Current liabilities</b>                                      |                     |                                 |                     |
| Bank loans (Note 9)                                             | \$1 820 000         |                                 | \$1 820 000         |
| Deposits – ticket sales (Note 10)                               | 890 047             |                                 | 890 047             |
| Suppliers and accruals                                          | 2 440 648           |                                 | 2 440 648           |
| Interfund payables, interest-free,<br>no repayment conditions   | 1 033 156           |                                 |                     |
| Accrued interest                                                | 255 090             |                                 | 255 090             |
| Gouvernement du Québec deferred<br>subsidies (Note 11)          | 162 073             |                                 | 162 073             |
| Revenue collected in advance                                    | 118 548             |                                 | 118 548             |
| Instalments of the long-term debt (Note 12)                     | 1 910 007           |                                 | 1 910 007           |
|                                                                 | <u>8 629 569</u>    |                                 | <u>7 596 413</u>    |
| Gouvernement du Québec deferred<br>subsidies (Note 11)          | 18 357 608          |                                 | 18 357 608          |
| Long-term debt (Note 12)                                        | 6 174 917           |                                 | 6 174 917           |
|                                                                 | <u>33 162 094</u>   |                                 | <u>32 128 938</u>   |
| <b>EQUITY</b>                                                   |                     |                                 |                     |
| Contributed surplus (Note 13)                                   | 4 621 570           |                                 | 4 621 570           |
| Closing fund                                                    | 100 000             | \$1 033 156                     | 1 133 156           |
|                                                                 | <u>4 721 570</u>    | <u>1 033 156</u>                | <u>5 754 726</u>    |
|                                                                 | <u>\$37 883 664</u> | <u>\$1 033 156</u>              | <u>\$37 883 664</u> |

**COMMITMENTS (Note 18)**

On behalf of the Board of Directors,  
Adélard Guillemette  
François G. Fortier

## SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

CASH FLOWS  
for the year ended August 31, 2004

|                                                    |                | 2004                      |             | 2003        |
|----------------------------------------------------|----------------|---------------------------|-------------|-------------|
|                                                    | Operating Fund | Cultural Development Fund | Total       | Total       |
| <b>OPERATING ACTIVITIES</b>                        |                |                           |             |             |
| Excess (Deficiency) revenue over expenditure       | \$55 827       | \$(35 000)                | \$20 827    | \$161 967   |
| Adjustments for:                                   |                |                           |             |             |
| Depreciation of deferred subsidies                 | (1 261 559)    |                           | (1 261 559) | (1 269 444) |
| Depreciation of fixed assets                       | 1 112 683      |                           | 1 112 683   | 1 101 511   |
| Amortization of deferred expenses                  | 8 805          |                           | 8 805       | 8 119       |
|                                                    | (84 244)       | (35 000)                  | (119 244)   | 2 153       |
| Change in non-cash elements of the Operating Fund: |                |                           |             |             |
| Debtors                                            | (460 975)      |                           | (460 975)   | (143 760)   |
| Gouvernement du Québec subsidies receivable        | (25 400)       |                           | (25 400)    | 45 815      |
| Supplies inventory                                 | 8 382          |                           | 8 382       | 14 078      |
| Prepaid expenses                                   | 34 153         |                           | 34 153      | (7 627)     |
| Deferred expenses                                  | (15 780)       |                           | (15 780)    |             |
| Deposits – ticket sales                            | 201 766        |                           | 201 766     | (141 008)   |
| Suppliers and accruals                             | 1 247 157      |                           | 1 247 157   | 102 013     |
| Accrued interest                                   | (2 049)        |                           | (2 049)     | (40 737)    |
| Gouvernement du Québec deferred subsidies          | (29 252)       |                           | (29 252)    | 3 104       |
| Revenue collected in advance                       | 14 209         |                           | 14 209      | 4 059       |
| Cash flows related to operating activities         | 887 967        | (35 000)                  | 852 967     | (161 910)   |
| <b>FINANCING ACTIVITIES</b>                        |                |                           |             |             |
| Gouvernement du Québec subsidies received          | 572 711        |                           | 572 711     | 783 222     |
| Bank loans                                         | 724 000        |                           | 724 000     | 375 000     |
| Long-term debt                                     | 2 329 833      |                           | 2 329 833   |             |
| Repayment of long-term debt                        | (2 886 764)    |                           | (2 886 764) | (783 222)   |
| Cash flows related to financing activities         | 739 780        |                           | 739 780     | 375 000     |
| <b>INVESTMENT ACTIVITIES</b>                       |                |                           |             |             |
| Cash reserved for construction and renovations     | (50 319)       |                           | (50 319)    | 73 833      |
| Acquisition of fixed assets                        | (361 870)      |                           | (361 870)   | (344 933)   |
| Cash flows related to investment activities        | (412 189)      |                           | (412 189)   | (271 100)   |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>         |                |                           |             |             |
|                                                    | 1 215 558      | (35 000)                  | 1 180 558   | (58 010)    |
| <b>OPENING CASH AND CASH EQUIVALENTS</b>           |                |                           |             |             |
|                                                    | 2 338 146      |                           | 2 338 146   | 2 396 156   |
| <b>INTERFUND CASH FLOWS</b>                        |                |                           |             |             |
|                                                    | (35 000)       | 35 000                    |             |             |
| <b>CLOSING CASH AND CASH EQUIVALENTS (Note 14)</b> |                |                           |             |             |
|                                                    | \$3 518 704    |                           | \$3 518 704 | \$2 338 146 |

**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

August 31, 2004

**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of 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, promote accessibility to the different forms of performing arts and promote Québec's artistic and cultural life.

Under section 32 of its incorporating statute, the Société funds its activities through the amounts 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 du Grand Théâtre de Québec is recognized as a charitable organization under the Income Tax Act and, consequently, is eligible for the tax exemption available to such organizations.

**2. FUNDS**

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 too the creations of domestic and foreign artists. Apart from the interest it earns, it is comprised of transfers from the Operating Fund, gifts, sponsorships and other external contributions and the proceeds from ticket sales for the presentation of productions issuing from this Fund.

**3. ACCOUNTING POLICIES**

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Subsidy recording**

Appropriated subsidies are recorded as proceeds in the fiscal year in which the related charges are incurred. Subsidies receivable for fixed assets are recorded in the fiscal year in which the Société carries out the work or obtained the long-term financing entitling it to these subsidies.

**Supplies inventory**

Supplies on hand are valued at cost.

**Fixed assets**

The property and building, acquired from the Gouvernement du Québec for a nominal value, are posted at the municipal assessment value at the date of acquisition. Other acquisitions are recorded at cost, which includes materials, direct labour, professional fees and other direct expenses. Fixed assets are amortized according to the straight-line method over their estimated service life, namely:

|                                          |          |
|------------------------------------------|----------|
| 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 FINANCIAL STATEMENTS (cont'd) August 31, 2004

#### 3. ACCOUNTING POLICIES (cont'd)

##### Deferred expenses

The discount and long-term debt issuing expenses are deferred and amortized using the straight-line method for the duration of the debt.

##### Performance production and presentation expenses

Performance production and presentation expenses include only direct costs charged to productions. Indirect costs related to productions are posted to other expenditure items.

##### Cash and cash equivalents

Cash and cash equivalents are composed of cash and short-term investments that are highly liquid and easily convertible into a known amount of cash whose value is unlikely to change significantly.

##### Pension plan

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

#### 4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

|                                                                 | 2004               | 2003               |
|-----------------------------------------------------------------|--------------------|--------------------|
| Operating subsidy *                                             | \$2 491 485        | \$2 485 096        |
| Interest on long-term debt                                      | 585 982            | 628 080            |
| Amortization of deferred<br>Gouvernement du Québec subsidies ** | 1 261 559          | 1 269 444          |
|                                                                 | <u>\$4 339 026</u> | <u>\$4 382 620</u> |

\* The operating subsidy reflects the fact that the Société must pay its property taxes, which total \$232 684 (2003: \$267 974) and, under the building's act of transfer, it must house the Conservatoire de musique de Québec free of charge, which represents operating expenses and property taxes of \$461 255 (2003: \$479 615).

\*\* This amount includes \$8 805 (2003: \$8 119) for the amortization of deferred expenses and \$140 071 (2003: \$159 813) for the financing of current charges related to building maintenance. These charges break down as follows:

|                            | 2004      | 2003      |
|----------------------------|-----------|-----------|
| Maintenance and caretaking | \$112 327 | \$150 190 |
| Theatrical services        | 27 744    | 9 623     |

#### 5. NON-MONETARY TRANSACTIONS

The Société exchanges goods and services with certain suppliers. These non-monetary transactions are entered in 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 \$201 989 (2003: \$85 766).

#### 6. TERM DEPOSITS

Term deposits bear interest at a rate varying from 1.90% to 2.43% (2003: 2.25% to 3.15%).

**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004**7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt, the interest paid and not reimbursed on the bank loans and to reimbursement of capital on the long-term debt in the next fiscal year.

Those presented as long-term represent total Gouvernement du Québec commitments related to fixed assets and their maintenance minus reimbursement of capital on the long-term debt made in the past or to be made in the next fiscal year.

**8. FIXED ASSETS**

|                                              | 2004                    |                             | 2003                |                     |
|----------------------------------------------|-------------------------|-----------------------------|---------------------|---------------------|
|                                              | Cost or<br>stated value | Accumulated<br>depreciation | Net                 | Net                 |
| Land                                         | \$4 621 570             |                             | \$4 621 570         | \$4 621 570         |
| Building                                     | 23 901 091              | \$8 514 764                 | 15 386 327          | 15 983 855          |
| Major extensions and repairs to the building | 4 766 610               | 3 111 627                   | 1 654 983           | 1 655 728           |
| Technical stage equipment                    | 5 156 627               | 3 941 768                   | 1 214 859           | 1 300 831           |
| Office furniture and equipment               | 307 434                 | 251 112                     | 56 322              | 56 872              |
| Data processing equipment                    | 369 436                 | 356 265                     | 13 171              | 27 189              |
|                                              | <u>\$39 122 768</u>     | <u>\$16 175 536</u>         | <u>\$22 947 232</u> | <u>\$23 646 045</u> |

The cost of additions and major repairs to the building includes an amount of \$72 326 which will begin to be amortized when the work has been completed.

**9. BANK BORROWINGS**

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, 2004, the Société had not used this credit line.

The Gouvernement du Québec authorized the Société to borrow the following amounts for fixed assets maintenance:

|                                                                                                                                                                  | 2004               | 2003               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Credit line repayable on demand, authorized by<br>Order-in-Council, maximum of \$777 100<br>bearing interest at the prime rate, maturing on<br>November 30, 2004 | \$680 000          | \$619 000          |
| Credit line repayable on demand, authorized by<br>Order-in-Council, maximum of \$870 500<br>bearing interest at the prime rate, maturing on<br>November 30, 2004 | 654 000            | 385 000            |
| Credit line repayable on demand, authorized by<br>Order-in-Council, maximum of \$857 200<br>bearing interest at the prime rate, maturing on<br>November 30, 2004 | <u>486 000</u>     | <u>92 000</u>      |
|                                                                                                                                                                  | <u>\$1 820 000</u> | <u>\$1 096 000</u> |

A credit line of a maximum of \$841 300 bearing interest at the prime rate and maturing November 30, 2004, which was unused at August 31, 2004, was authorized by order-in-council.

The maximum amount authorized by the Gouvernement du Québec for bank borrowings for assets maintenance is \$3 346 100 (2003: \$2 504 800).



**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004

**10. DEPOSITS – TICKET SALES**

During the year, in its capacity as co-manager of the Billetech ticket office, the Société sold tickets to various events. Most of this amount belongs to independent producers. This item shows the amount paid by customers for shows which had not yet been presented as at August 31, 2004.

**11. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDIES**

Deferred subsidies are related to fixed assets and their maintenance and property taxes. Changes in the balance for the fiscal year are as follows:

|                                                                         | 2004                | 2003                |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Opening balance                                                         | \$19 248 244        | \$20 047 654        |
| Government commitments regarding fixed assets and their maintenance     | 546 468             | 466 930             |
| Long-term debt issuing expenses                                         | 15 780              |                     |
| Commitments related to property taxes                                   | 162 073             | 191 325             |
| Amount recorded as subsidies for property taxes                         | (191 325)           | (188 221)           |
| Amortization of deferred subsidies                                      | (1 261 559)         | (1 269 444)         |
|                                                                         | <u>18 519 681</u>   | <u>19 248 244</u>   |
| Government commitments designed to cover costs for the next fiscal year | (162 073)           | (191 325)           |
|                                                                         | <u>\$18 357 608</u> | <u>\$19 056 919</u> |

Deferred subsidies are amortized at the same rate as fixed assets.

**12. LONG-TERM DEBT**

|                                                                                                                                                       | 2004               | 2003               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Borrowings from the Financing Fund of the Gouvernement du Québec                                                                                      |                    |                    |
| Fixed rate of 9.50%, repayable in annual instalments of \$216 633 until April 1, 2004 with a final instalment of \$1 299 800 on April 1, 2005         | \$1 299 800        | \$1 516 434        |
| Fixed rate of 5.673%, repayable in annual instalments of \$173 708 until April 11, 2005 with a final instalment of \$1 910 791 on April 11, 2006      | 2 084 500          | 2 258 209          |
| Fixed rate of 6.0364%, repayable in annual instalments of \$182 369 until December 1, 2009 with a final instalment of \$1 276 580 on December 1, 2010 | 2 370 792          | 2 553 160          |
| Fixed rate of 4.311%, repayable in annual instalments of \$42 293 with a final instalment on October 1, 2008                                          | 211 463            |                    |
| Fixed rate of 5.343%, repayable in annual instalments of \$211 837 with a final instalment on October 1, 2013                                         | 2 118 369          |                    |
| Fixed rate of 5.62%, repaid on December 1, 2003                                                                                                       |                    | 2 314 052          |
|                                                                                                                                                       | <u>8 084 924</u>   | <u>8 641 855</u>   |
| Instalments due within one year                                                                                                                       | <u>1 910 007</u>   | <u>2 886 763</u>   |
|                                                                                                                                                       | <u>\$6 174 917</u> | <u>\$5 755 092</u> |

The Société receives subsidies from the Gouvernement du Québec to cover the long-term debt service.

**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004

**12. LONG-TERM DEBT** (cont'd)

Repayment of principal on the long-term debt over the next five fiscal years is as follows:

|      |             |
|------|-------------|
| 2005 | \$1 910 007 |
| 2006 | 2 347 291   |
| 2007 | 436 499     |
| 2008 | 436 498     |
| 2009 | 436 498     |

**13. CONTRIBUTED SURPLUS**

The contributed surplus amount corresponds to the property's municipal assessment on the date of acquisition.

**14. CASH FLOWS**

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

|              | 2004               | 2003               |
|--------------|--------------------|--------------------|
| Cash on hand | \$1 791 982        | \$542 129          |
| Term deposit | 1 726 722          | 1 796 017          |
|              | <u>\$3 518 704</u> | <u>\$2 338 146</u> |

Interest on the long-term debt paid by the Société during the fiscal year totalled \$588 032 (2003: \$668 816).

During the fiscal year, fixed assets were acquired for a total cost of \$413 870 (2003: \$395 772), including fixed assets totalling \$133 336 (2003: \$81 336) included in accounts payable as at August 31, 2004. Outpayments totalling \$361 870 (2003: \$344 933) were made for the purchase of fixed assets.

**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 are subject to either joint control or significant influence by it. The Société 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.

**16. 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 upon retirement, loss of employment and death and the other is the interenterprise defined-benefit plan Pension Plan of Management Personnel (PPMP), which includes guarantees on retirement and death.

The Société's contributions charged to the year-end statement amount to \$176 985 (2003: \$126 110). The Société's liability towards these plans is restricted to its contributions as an employer.

**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
August 31, 2004

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**17. FAIR VALUE OF FINANCIAL INSTRUMENTS****Gouvernement du Québec subsidy receivable**

At August 31, 2004, the fair value of Gouvernement du Québec subsidies receivable of \$10 176 785 (2003: \$10 161 848) was \$10 748 237 (2003: \$10 821 248).

**Long-term debt**

At August 31, 2004, the fair value of the long-term debt of \$8 084 924 (2003: \$8 641 855) was \$8 656 377 (2003: \$9 301 225), given the capitalization of cash flows at the market rate for securities of whose similar term and interest rate is similar.

**Other financial instruments**

The book values of short-term assets and liabilities as the cash reserved for construction and redevelopment are representative of their fair value, given that they mature in the short term.

**18. COMMITMENTS**

The Société has commitments to suppliers of maintenance and snow removal services. Minimum future payments are:

|      |           |
|------|-----------|
| 2005 | \$341 365 |
| 2006 | 243 665   |
| 2007 | 192 670   |

**19. COMPARATIVE FIGURES**

Certain 2003 figures were reclassified for consistency with the presentation adopted in 2004.

**SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Société du Grand Théâtre de Québec were drawn up by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the 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 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. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, 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 the auditing standards that are generally accepted in Canada. 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.

Francine Grégoire  
Director General

Québec, November 12, 2004

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Société du Grand Théâtre de Québec as at August 31, 2004 and the statements of results and surplus, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2004 and the results of its operations and cash flows 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 General of Québec

Québec, November 12, 2004

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**  
(R.S.Q., c. S-14.1)

**REVENUE AND EXPENDITURE AND SURPLUS**  
for the year ended March 31, 2005

|                                                                                           | <u>2005</u>               | <u>2004</u>               |
|-------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>REVENUE</b>                                                                            |                           |                           |
| Rental of premises for events                                                             | \$6 283 458               | \$5 258 352               |
| Royalties (Note 3)                                                                        | 3 192 953                 | 2 605 412                 |
| Ancillary operations (Note 4)                                                             | 4 886 404                 | 4 146 319                 |
| Rental free of charge (Note 5)                                                            | 745 850                   | 672 354                   |
| Other (Note 6)                                                                            | <u>982 696</u>            | <u>640 601</u>            |
|                                                                                           | <u>16 091 361</u>         | <u>13 323 038</u>         |
| <b>EXPENDITURE</b>                                                                        |                           |                           |
| Hosting of events (Note 7)                                                                | 4 009 314                 | 3 529 741                 |
| Operating and administrative expenses (Note 8)                                            | 16 575 514                | 17 704 719                |
| Municipal taxes                                                                           | 7 644 230                 | 8 830 462                 |
| Loss on rental free of charge (Note 5)                                                    | 745 850                   | 672 354                   |
| Net financial expenses (Note 9)                                                           | <u>14 369 459</u>         | <u>11 734 915</u>         |
|                                                                                           | <u>43 344 367</u>         | <u>42 472 191</u>         |
| <b>DEFICIT REVENUE OVER EXPENDITURE<br/>BEFORE OPERATING SUBSIDY AND<br/>OTHER ITEMS:</b> | (27 253 006)              | (29 149 153)              |
| Gouvernement du Québec subsidy (Note 10)                                                  | <u>31 006 445</u>         | <u>30 575 308</u>         |
| <b>EXCESS REVENUE OVER EXPENDITURE<br/>BEFORE THE FOLLOWING ITEMS:</b>                    | 3 753 439                 | 1 426 155                 |
| Loss on depreciation of fixed assets                                                      | (25 792)                  | (7 777)                   |
| Gouvernement du Québec subsidy for fixed assets<br>and deferred expenses (Note 10)        | 9 845 108                 | 9 407 786                 |
| Amortization of fixed assets                                                              | (10 871 720)              | (10 529 820)              |
| Amortization of deferred expenses                                                         | 1 238 395                 | 1 211 782                 |
| Amortization of deferred long-term debt issuing<br>and management costs                   | (183 609)                 | (81 565)                  |
| Income related to asset sold (2004: income<br>related to asset slated for sale)           | <u>423 250</u>            | <u>432 000</u>            |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                                    | 4 179 071                 | 1 858 561                 |
| <b>EXCESS (DEFICIT), BEGINNING OF YEAR</b>                                                | <u>1 447 441</u>          | <u>(411 120)</u>          |
| <b>EXCESS, END OF YEAR</b>                                                                | <u><u>\$5 626 512</u></u> | <u><u>\$1 447 441</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, 2005

|                                                       | <u>2005</u>                 | <u>2004</u>                 |
|-------------------------------------------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                                         |                             |                             |
| <b>Current assets</b>                                 |                             |                             |
| Cash on hand                                          | \$10 068 127                | \$4 957 186                 |
| Term deposit, rate of 2.40%                           | 4 000 000                   |                             |
| Accounts receivable                                   | 1 984 070                   | 1 585 282                   |
| Prepaid expenses                                      | 2 132 480                   | 2 311 955                   |
| Gouvernement du Québec subsidy to be recovered        | 11 390 006                  | 7 459 260                   |
| Receivable on sale of asset, rate of 4% (Note 16)     | 6 064 917                   |                             |
|                                                       | <u>35 639 600</u>           | <u>16 313 683</u>           |
| <b>Asset slated for sale</b> (Note 16)                |                             | 15 756 215                  |
| <b>Fixed assets</b> (Note 11)                         | 311 372 213                 | 304 742 029                 |
| <b>Deferred expenses, at amortized cost</b>           | 2 100 068                   | 1 305 214                   |
| <b>Gouvernement du Québec subsidy to be recovered</b> | <u>21 268 425</u>           | <u>20 820 952</u>           |
|                                                       | <u><u>\$370 380 306</u></u> | <u><u>\$358 938 093</u></u> |
| <b>LIABILITIES</b>                                    |                             |                             |
| <b>Current liabilities</b>                            |                             |                             |
| Short-term borrowings (Note 12)                       |                             | \$127 000 000               |
| Accounts payable                                      | \$18 462 673                | 14 128 883                  |
| Customer deposits                                     | 1 933 722                   | 1 832 488                   |
| Gouvernement du Québec deferred subsidy (Note 10)     | 9 249 850                   |                             |
| Instalments on long-term debt (Note 14)               | 7 261 752                   | 4 992 376                   |
|                                                       | <u>36 907 997</u>           | <u>147 953 747</u>          |
| <b>Deferred revenue</b>                               | 20 146                      | 40 292                      |
| <b>Deferred contributions</b> (Note 13)               | 19 264 911                  | 19 977 239                  |
| <b>Long-term debt</b> (Note 14)                       | <u>308 560 740</u>          | <u>189 519 374</u>          |
|                                                       | 364 753 794                 | 357 490 652                 |
| <b>SURPLUS</b>                                        | <u>5 626 512</u>            | <u>1 447 441</u>            |
|                                                       | <u><u>\$370 380 306</u></u> | <u><u>\$358 938 093</u></u> |

**COMMITMENTS** (Note 18)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Michel Sabourin  
Jacques Hamou

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL****CASH FLOWS**

for the year ended March 31, 2005

|                                                     | <u>2005</u>                | <u>2004</u>               |
|-----------------------------------------------------|----------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                         |                            |                           |
| Receipts – Government, clients                      | \$15 251 345               | \$14 799 024              |
| Receipts – Gouvernement du Québec subsidy           | 46 249 250                 | 31 399 400                |
| Disbursements – suppliers and staff members         | (30 202 908)               | (32 859 082)              |
| Interest earned                                     | 161 066                    | 242 086                   |
| Interest paid                                       | (12 869 155)               | (9 510 117)               |
| Cash flows related to operating activities          | <u>18 589 598</u>          | <u>4 071 311</u>          |
| <b>INVESTMENT ACTIVITIES (1)</b>                    |                            |                           |
| Acquisition of fixed assets                         | (13 152 781)               | (14 328 916)              |
| Proceeds from the sale of fixed assets              | <u>10 002 382</u>          | <u>406</u>                |
| Cash flows related to investment activities         | <u>(3 150 399)</u>         | <u>(14 328 510)</u>       |
| <b>FINANCING ACTIVITIES</b>                         |                            |                           |
| Repayment of long-term debt                         | (7 128 258)                | (1 023 402)               |
| Short-term borrowing                                | (127 000 000)              | (148 000 000)             |
| Long-term debt                                      | <u>127 800 000</u>         | <u>162 240 000</u>        |
| Cash flows related to financing activities          | <u>(6 328 258)</u>         | <u>13 216 598</u>         |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>        | 9 110 941                  | 2 959 399                 |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> | <u>4 957 186</u>           | <u>1 997 787</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (2)</b>   | <u><u>\$14 068 127</u></u> | <u><u>\$4 957 186</u></u> |

(1) Operations related to investment activities not affecting cash flow:

|                                                             | <u>2005</u>                | <u>2004</u>               |
|-------------------------------------------------------------|----------------------------|---------------------------|
| Acquisitions of fixed assets financed from accounts payable | <u><u>\$10 426 543</u></u> | <u><u>\$5 960 406</u></u> |

(2) Cash and cash equivalents include the following amounts recorded in the financial statements:

|              | <u>2005</u>                | <u>2004</u>               |
|--------------|----------------------------|---------------------------|
| Cash on hand | \$10 068 127               | \$4 957 186               |
| Term deposit | <u>4 000 000</u>           |                           |
|              | <u><u>\$14 068 127</u></u> | <u><u>\$4 957 186</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

**1. CONSTITUTION AND PURPOSE**

A legal person within the meaning of the Civil Code, the Société du Palais des congrès de Montréal was established under a special act (R.S.Q., c. S-14.1) for the purpose of:

- managing and operating the Palais des congrès de Montréal;
- preparing development or operational plans for the Palais des congrès;
- carrying on, promoting and administering, 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 du Palais des congrès de Montréal is not subject to income tax.

**2. ACCOUNTING POLICIES**

The Société's financial statements were prepared by management on the accrual basis in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Term deposits**

Term deposits are recorded at cost or market value, whichever is less.

**Gouvernement du Québec subsidy to be recovered**

The subsidy to be recovered from the Government corresponds to the difference between the interest expenses accrued on borrowings for the acquisition of fixed assets plus the depreciation on those assets and the deferred expenses financed by the borrowings, and the total subsidies received from the Gouvernement du Québec to pay back those borrowings.

**Asset slated for sale**

The asset slated for sale is assessed at cost or realization value and the fair value of sales fees whichever is less.

**Fixed assets**

Fixed assets are recorded at cost. Fixed assets are depreciated over their estimated useful life according to the straight-line method as follows:

|                           |                             |
|---------------------------|-----------------------------|
| Building                  | 40 years                    |
| Furniture and equipment   | 10 years                    |
| Data processing equipment | 5 years                     |
| Computer software         | 5 years                     |
| Leasehold improvements    | Remaining term of the lease |

**Deferred expenses**

Issue and management expenses on borrowings from the Financing Fund of the Gouvernement du Québec are deferred and amortized according to the straight-line method over the term of the borrowings.

Direct initial expenses incurred to lease office space on the ground floor are deferred and amortized using the straight-line method over the duration of the lease.



**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**2. ACCOUNTING POLICIES (cont'd)****Deferred revenue**

Lease inducements paid by the lessor to the Société under a long-term lease for office space are amortized according to the sum-of-the-years'-digits method over the term of the lease (16 years). The amortization is applied against the rent.

**Deferred contributions**

Contributions received for the acquisition of depreciable fixed assets and those received in the form of depreciable fixed assets are deferred and recorded in the statement of revenue and expenditure as the assets to which they pertain are depreciated.

**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 expenditures 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.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**Gouvernement du Québec subsidy**

The Société records and distributes the Gouvernement du Québec subsidy as follows:

- . *Operating subsidy*
  - Contribution for the payment of interest on the long-term debt contracted to finance depreciable fixed assets.
  - Contribution for other expenses incurred during the year.
- . *Subsidy for fixed assets and deferred expenses*
  - Contribution for the repayment of the long-term debt contracted to finance depreciable fixed assets and the related deferred expenses, corresponding to the amortization of these fixed assets and deferred long-term debt issuing and management costs.
- . *Deferred contributions*
  - Contribution for the acquisition of depreciable fixed assets.

**Cash and cash equivalents**

The Société' policy consists in presenting as cash and cash equivalents the 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.

**3. ROYALTIES**

|                      | 2005               | 2004               |
|----------------------|--------------------|--------------------|
| Ticket sales         | \$531 465          | \$479 707          |
| Food services        | 1 969 743          | 1 667 908          |
| Audiovisual services | 609 341            | 388 031            |
| Other                | 82 404             | 69 766             |
|                      | <u>\$3 192 953</u> | <u>\$2 605 412</u> |

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. ANCILLARY OPERATIONS**

|                          | 2005               | 2004               |
|--------------------------|--------------------|--------------------|
| Parking                  | \$855 646          | \$764 698          |
| Furnishings              | 1 274 738          | 1 318 790          |
| Cleaning services        | 217 653            |                    |
| Audiovisual services     | 367 496            | 242 637            |
| Telecommunications       | 536 233            | 351 800            |
| Cloakroom attendants     | 189 507            | 194 098            |
| Plumbing and electricity | 1 235 843          | 1 160 342          |
| Security                 | 121 255            | 77 122             |
| Other                    | 88 033             | 36 832             |
|                          | <u>\$4 886 404</u> | <u>\$4 146 319</u> |

**5. RENTAL FREE OF CHARGE**

The Société rents two 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.

**6. OTHER**

|                                  | 2005             | 2004             |
|----------------------------------|------------------|------------------|
| Office rental                    | \$427 494        | \$138 394        |
| Administrative office subletting | 304 700          | 330 092          |
| Other                            | 250 502          | 172 115          |
|                                  | <u>\$982 696</u> | <u>\$640 601</u> |

**7. HOSTING OF EVENTS – EXPENSES**

|                                   | 2005               | 2004               |
|-----------------------------------|--------------------|--------------------|
| Salaries – event staff:           |                    |                    |
| Customer service                  | \$578 399          | \$468 105          |
| Parking lot attendants            | 104 046            | 99 555             |
| Reception et Cloakroom attendants | 700 683            | 644 950            |
| Audiovisual technicians           | 403 573            | 300 208            |
| Telecommunications                | 61 342             |                    |
| Layout                            | 1 189 195          | 1 408 403          |
| Maintenance                       | 204 787            |                    |
| Audiovisual services              | 67 911             | 70 290             |
| Telecommunications                | 109 196            | 88 758             |
| Plumbing and electricity          | 227 040            | 263 124            |
| Security                          | 140 756            | 65 075             |
| Other expenses                    | 222 386            | 121 273            |
|                                   | <u>\$4 009 314</u> | <u>\$3 529 741</u> |

## SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**8. OPERATING AND ADMINISTRATIVE EXPENSES**

|                                               | 2005                | 2004                |
|-----------------------------------------------|---------------------|---------------------|
| Salaries and fringe benefits                  | \$6 868 219         | \$6 892 315         |
| Insurance and permits                         | 368 814             | 428 575             |
| Electricity and heating                       | 1 945 023           | 2 259 078           |
| Caretaking                                    | 738 842             | 750 767             |
| Cleaning services                             | 1 111 069           | 1 105 847           |
| Specialized maintenance services              | 872 954             | 914 066             |
| Maintenance and repairs                       | 1 565 660           | 1 838 785           |
| Amortization of deferred initial rental costs | 27 758              |                     |
| Rent                                          | 615 440             | 608 834             |
| Promotion and communications                  | 1 218 379           | 1 586 527           |
| Professional and administrative services      | 1 047 370           | 1 199 239           |
| Doubtful and uncollectible accounts           | 50 735              | 35 277              |
| Job training                                  | 145 251             | 85 409              |
|                                               | <u>\$16 575 514</u> | <u>\$17 704 719</u> |

**9. NET FINANCIAL EXPENSES**

|                                            | 2005                | 2004                |
|--------------------------------------------|---------------------|---------------------|
| Interest on long-term debt                 | \$13 132 362        | \$5 144 763         |
| Other interest and bank charges            | 1 398 163           | 6 832 238           |
|                                            | 14 530 525          | 11 977 001          |
| Interest on bank balances and term deposit | (161 066)           | (242 086)           |
|                                            | <u>\$14 369 459</u> | <u>\$11 734 915</u> |

**10. GOUVERNEMENT DU QUÉBEC SUBSIDY**

|                                                                                                         | 2005                | 2004                |
|---------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Operating subsidy:                                                                                      |                     |                     |
| Subsidy for the year (1)                                                                                | \$36 999 400        | \$31 399 400        |
| Deferred contributions – Contribution for the acquisition of depreciable fixed assets                   | (526 067)           | (2 267 574)         |
| Receipt – Gouvernement du Québec subsidy owing                                                          | (9 595 142)         | (1 023 402)         |
|                                                                                                         | 26 878 191          | 28 108 424          |
| Contribution to be recovered for the payment of interest on the debt contracted to finance fixed assets | 4 128 254           | 2 466 884           |
| Total operating subsidy                                                                                 | 31 006 445          | 30 575 308          |
| Subsidy for fixed assets and deferred expenses                                                          | 9 845 108           | 9 407 786           |
|                                                                                                         | <u>\$40 851 553</u> | <u>\$39 983 094</u> |

- (1) The deferred Gouvernement du Québec subsidy at March 31, 2005 is \$9 249 850 (March 31, 2004: \$0) and corresponds to that portion of the operating subsidy for the following fiscal year that is prepaid at March 31.

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. FIXED ASSETS**

|                           | 2005                 |                          | 2004                 |
|---------------------------|----------------------|--------------------------|----------------------|
|                           | Cost                 | Accumulated depreciation | Net                  |
| <b>Fixed assets</b>       |                      |                          |                      |
| Land                      | \$24 023 168         |                          | \$23 242 481         |
| Building                  | 349 137 299          | \$73 904 449             | 268 416 734          |
| Furniture and equipment   | 21 079 014           | 9 795 479                | 12 104 602           |
| Leasehold improvements    | 481 717              | 450 572                  | 62 290               |
| Data processing equipment | 4 891 775            | 4 131 227                | 833 857              |
|                           | <u>399 612 973</u>   | <u>88 281 727</u>        | <u>304 659 964</u>   |
| <b>Intangible assets</b>  |                      |                          |                      |
| Computer software         | <u>1 963 426</u>     | <u>1 922 459</u>         | <u>82 065</u>        |
|                           | <u>\$401 576 399</u> | <u>\$90 204 186</u>      | <u>\$304 742 029</u> |

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. For the fiscal year ended March 31, 2005, its fees totalled \$330 000. At March 31, 2005, holdbacks payable to the Société immobilière du Québec to reimburse construction costs was \$10 282 563. 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, 2005 regarding the Palais des congrès expansion. Cumulated project costs at March 31, 2005 totalled \$270 587 650 and break down as follows:

|                         | 2005                 |
|-------------------------|----------------------|
| Land                    | \$21 038 117         |
| Building                | 243 811 417          |
| Furniture and equipment | <u>5 738 116</u>     |
|                         | <u>\$270 587 650</u> |

**12. SHORT-TERM BORROWINGS**

The Société was authorized by the Gouvernement du Québec to contract short-term borrowings of up to \$310 500 000 until September 30, 2004 and then \$5 000 000 from that date to May 31, 2007 from financial institutions or the Minister of Finance, as manager of the Financing Fund, to contract these borrowing at variable or fixed rates, to make these financial commitments, to conclude the agreements needed for their realization and to issue any debt instruments.

To ensure repayment of the principal and interest on borrowings contracted with the Minister of Finance under the borrowing plan set up, the Gouvernement du Québec committed, 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.

**From the Financing Fund of the Gouvernement du Québec**

|                                                | 2005 | 2004                 |
|------------------------------------------------|------|----------------------|
| Note payable                                   |      |                      |
| 2.10286% annually (effective rate of 2.15286%) |      | <u>\$127 000 000</u> |

## SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**12. TEMPORARY BORROWINGS (cont'd)****From financial institutions**

The Société had authorized credit, renewable annually, on July 31, from a financial institution. As at March 31, 2005, the maximum, amount that the Société could withdraw was \$500 000. Amounts used bear interest at the prime rate.

**13. DEFERRED CONTRIBUTIONS**

|                                                                                             | 2005                | 2004                |
|---------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Deferred Gouvernement du Québec contribution:</b>                                        |                     |                     |
| Opening balance                                                                             | \$7 802 639         | \$6 077 516         |
| Contribution to acquisition of fixed assets                                                 | 526 067             | 2 267 574           |
|                                                                                             | <u>8 328 706</u>    | <u>8 345 090</u>    |
| Less:                                                                                       |                     |                     |
| Transfer to revenues of an amount equal to the amortization of the related fixed assets (1) | <u>569 064</u>      | <u>542 451</u>      |
|                                                                                             | <u>7 759 642</u>    | <u>7 802 639</u>    |
| <b>Deferred lender's contribution:</b>                                                      |                     |                     |
| Opening balance                                                                             | 475 696             | 528 619             |
| Less:                                                                                       |                     |                     |
| Transfer to revenues of an amount equal to the amortization of the related fixed assets (1) | <u>52 923</u>       | <u>52 923</u>       |
|                                                                                             | <u>422 773</u>      | <u>475 696</u>      |
| <b>Deferred dealer's contribution:</b>                                                      |                     |                     |
| Opening balance                                                                             | 189 627             | 199 607             |
| Less:                                                                                       |                     |                     |
| Transfer to revenues of an amount equal to the amortization of the related fixed assets (1) | <u>9 980</u>        | <u>9 980</u>        |
|                                                                                             | <u>179 647</u>      | <u>189 627</u>      |
| <b>Deferred Hydro-Québec contribution:</b>                                                  |                     |                     |
| Opening balance                                                                             | 109 277             | 115 705             |
| Less:                                                                                       |                     |                     |
| Transfer to revenues of an amount equal to the amortization of the related fixed assets (1) | <u>6 428</u>        | <u>6 428</u>        |
|                                                                                             | <u>102 849</u>      | <u>109 277</u>      |
| <b>Deferred Government of Canada contribution:</b>                                          |                     |                     |
| Opening balance                                                                             | 11 400 000          | 12 000 000          |
| Less:                                                                                       |                     |                     |
| Transfer to revenues of an amount equal to the amortization of the related fixed assets (1) | <u>600 000</u>      | <u>600 000</u>      |
|                                                                                             | <u>10 800 000</u>   | <u>11 400 000</u>   |
|                                                                                             | <u>\$19 264 911</u> | <u>\$19 977 239</u> |

(1) Amortization of the fiscal year's deferred contributions totalled \$1 238 395 (March 31, 2004: \$1 211 782).

## SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**14. LONG-TERM DEBT****From the Financing Fund of the Gouvernement du Québec**

|                                                                                                                                                                                      | 2005                        | 2004                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Note payable                                                                                                                                                                         |                             |                             |
| 5.719% annually (effective rate of 5.795%), repayable in quarterly instalments of \$1 264 225, until March 31, 2007 and by an instalment of \$29 898 362 maturing October 1, 2007    | \$30 682 294                | \$31 424 057                |
| 5.234% annually (effective rate of 5.299%), repayable in quarterly instalments of \$1 172 832, until March 30, 2015 and by an instalment of \$23 094 301 maturing September 30, 2015 | 31 507 553                  | 32 177 693                  |
| 5.159% annually (effective rate of 5.223%), repayable in quarterly instalments of \$4 683 303, until April 1, 2013 and by an instalment of \$100 465 429 maturing October 1, 2013    | 127 329 528                 | 130 910 000                 |
| 4.6035% annually (effective rate of 4.658%), repayable in quarterly instalments of \$4 358 531, until February 6, 2011 and by an instalment of \$108 950 781 maturing August 6, 2011 | 126 303 117                 | 194 511 750                 |
|                                                                                                                                                                                      | <u>315 822 492</u>          | <u>194 511 750</u>          |
| Instalments due within one year                                                                                                                                                      | <u>7 261 752</u>            | <u>4 992 376</u>            |
|                                                                                                                                                                                      | <u><u>\$308 560 740</u></u> | <u><u>\$189 519 374</u></u> |

Principal payments on the long-term debt to be paid for the next five fiscal years are as follows:

|      |             |
|------|-------------|
| 2006 | \$7 261 752 |
| 2007 | 7 629 563   |
| 2008 | 36 204 812  |
| 2009 | 7 492 904   |
| 2010 | 7 865 926   |

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.

**15. FINANCIAL INSTRUMENTS****Fair value of financial instruments**

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

The following table shows the book value and fair value of the Société's long-term instruments, determined by actualizing future cash flows using market interest rates for similar securities:

|                                                | 2005                 |                      | 2004                 |                      |
|------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                | Book<br>value        | Fair<br>value        | Book<br>value        | Fair<br>value        |
| Long-term debt (including the short-term part) | <u>\$315 822 492</u> | <u>\$329 172 546</u> | <u>\$194 511 750</u> | <u>\$204 284 819</u> |

## SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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### 15. FINANCIAL INSTRUMENTS (cont'd)

#### Interest rate risk

Because the Société's financial interest-bearing assets and liabilities are at a fixed rate, the rate fluctuations to which it is exposed are minimal. Further, the Société is not exposed to an interest rate risk on its financial liabilities, given that interest is paid from a specific Gouvernement du Québec subsidy.

#### 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.

#### Exchange rate risk

Some of the Société's transactions are in foreign currency. It neither holds nor issues no 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.

### 16. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, 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 either joint control or significant influence by it. With the exception of the asset sale disclosed above, the Société 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. Related party transactions are recorded at exchange value, with the exception of the above-mentioned fixed asset sale, which is measured at book value, which corresponds to the exchange value.

During the fiscal year ended March 31, 2005, the Société invoiced rental costs to a related corporation for use of a parking area for \$15 845 055. The acquisition price was paid partly when the sales contract was signed (\$10 000 000) and the balance payable (\$5 845 055) will be paid in the following fiscal year. Rental income and interest for the fiscal year ended March 31, 2005 appear in the statement of income and expenditure and surplus as Income related to an asset sold. At March 31, 2005, the balance payable on the acquisition price and interest receivable appear under assets as Receivable on the sale of an asset.

### 17. FUTURE FRINGE BENEFITS

#### Pension plans

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These interenterprise plans are defined-benefit plans and include guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$244 758 (2004: \$224 090). The Société's liability towards these Government plans is restricted to its contributions as an employer.

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**18. COMMITMENTS**

The Société is committed to a long-term lease for office space, sublet in the context of Palais des congrès expansion and expiring in May 31, 2007. The minimum lease payments, less the amortization of deferred revenue (lease inducements) were estimated.

The Société is committed under long-term contracts expiring on various dates up to March 31, 2012 for guard, maintenance and specialized maintenance services.

The minimum future payments under these commitments break down as follows:

|                     | <u>Rent</u>      | <u>Other</u>       |
|---------------------|------------------|--------------------|
| 2006                | \$402 069        | \$2 517 656        |
| 2007                | 408 785          | 1 270 448          |
| 2008                | 69 250           | 173 832            |
| 2009                |                  | 173 832            |
| 2010                |                  | 173 832            |
| 2011 and thereafter |                  | 347 664            |
|                     | <u>\$880 104</u> | <u>\$4 657 264</u> |

**19. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.



**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL****MANAGEMENT'S REPORT**

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The financial statements of the Société du Palais des congrès de Montréal were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, 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 the auditing standards that are generally accepted in Canada. 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 element matter related to the audit.

Paul Saint-Jacques  
President and Chief Executive Officer

André Saucier, CGA  
Director, Financial and Administration

Montréal, June 8, 2005

**SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**

## AUDITOR'S REPORT

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To the National Assembly

I have audited the balance sheet of the Société du Palais des congrès de Montréal as at March 31, 2005 and the statements of revenue and expenditure and surplus and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 8, 2005

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**  
(R.S.Q., c. S-16.001)

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                                              | 2005                      | 2004<br>(adjusted)     |
|------------------------------------------------------------------------------|---------------------------|------------------------|
| <b>REVENUE (Note 4)</b>                                                      | <u>\$4 774 711</u>        | <u>\$5 785 345</u>     |
| <b>EXPENDITURE</b>                                                           |                           |                        |
| <b>Operating expenses by category (Note 5)</b>                               |                           |                        |
| Salaries and fringe benefits                                                 | 800 246                   | 929 236                |
| Materials and supplies                                                       | 703 406                   | 675 743                |
| Maintenance and repairs                                                      | 637 474                   | 596 664                |
| Professional, administrative and other services                              | 251 172                   | 179 329                |
| Municipal and school taxes                                                   | 180 943                   | 181 568                |
| Caretaking                                                                   | 154 903                   | 105 650                |
| Travelling and communications                                                | 54 011                    | 51 698                 |
| Advertising and promotion                                                    | 46 581                    | 73 636                 |
| Doubtful accounts                                                            |                           | 748                    |
| Other                                                                        | 7 500                     | 60 000                 |
|                                                                              | <u>2 836 236</u>          | <u>2 854 272</u>       |
| Depreciation of fixed assets                                                 | <u>2 012 780</u>          | <u>1 947 569</u>       |
|                                                                              | 4 849 016                 | 4 801 841              |
| <b>Other expenses</b>                                                        |                           |                        |
| Financial expenses                                                           | 1 013 307                 | 1 014 131              |
| Partial financing of Bécancour's water supply<br>and sewer systems (Note 10) | <u>47 103</u>             | <u>46 447</u>          |
|                                                                              | <u>5 909 426</u>          | <u>5 862 419</u>       |
| <b>EXCESS EXPENDITURE OVER REVENUE</b>                                       | <u><u>\$1 134 715</u></u> | <u><u>\$77 074</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR****EQUITY**

for the year ended March 31, 2005

|                                                 | <u>2005</u>                | <u>2004</u><br>(adjusted)  |
|-------------------------------------------------|----------------------------|----------------------------|
| <b>EQUITY, BEGINNING OF YEAR</b>                |                            |                            |
| Previously established balance                  | \$12 952 757               | \$12 959 369               |
| Correction (Note 3)                             |                            |                            |
| Review of amortization of fixed assets          | 1 871 762                  | 1 942 310                  |
| Review of amortization of government assistance | <u>(3 168)</u>             | <u>(3 254)</u>             |
| Adjusted balance                                | 14 821 351                 | 14 898 425                 |
| Excess expenditure over revenue                 | <u>1 134 715</u>           | <u>77 074</u>              |
| <b>EQUITY, END OF YEAR</b>                      | <u><b>\$13 686 636</b></u> | <u><b>\$14 821 351</b></u> |

The notes are an integral part of these financial statements.

## SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

BALANCE SHEET  
as at March 31, 2005

|                                                        | 2005                       | 2004<br>(adjusted)         |
|--------------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                          |                            |                            |
| <b>Current assets</b>                                  |                            |                            |
| Cash on hand                                           | \$709 566                  | \$444 590                  |
| Term deposits, at cost                                 | 500 000                    | 1 000 000                  |
| Accounts receivable (Note 6)                           | 829 428                    | 363 550                    |
| Spare parts inventory                                  | 204 173                    | 197 952                    |
| Prepaid expenses                                       | 153 543                    | 186 219                    |
|                                                        | <u>2 396 710</u>           | <u>2 192 311</u>           |
| <b>Land inventory</b>                                  | 5 437 565                  | 5 437 565                  |
| <b>Fixed assets</b> (Note 7)                           | <u>26 170 734</u>          | <u>27 237 185</u>          |
|                                                        | <u><u>\$34 005 009</u></u> | <u><u>\$34 867 061</u></u> |
| <b>LIABILITIES</b>                                     |                            |                            |
| <b>Current liabilities</b>                             |                            |                            |
| Accounts payable and accruals                          | \$312 480                  | \$299 711                  |
| Accrued interest on long-term debt                     | 467 332                    | 468 165                    |
| Holdback on contracts                                  | 15 615                     | 5 142                      |
| Deferred revenue                                       | 205 681                    | 231 281                    |
|                                                        | <u>1 001 108</u>           | <u>1 004 299</u>           |
| <b>Provision for sick leave</b> (Note 13)              | 84 268                     | 89 125                     |
| <b>Deferred government assistance – amortized cost</b> | 1 232 997                  | 952 286                    |
| <b>Long-term debt</b> (Note 9)                         | <u>18 000 000</u>          | <u>18 000 000</u>          |
|                                                        | 20 318 373                 | 20 045 710                 |
| <b>EQUITY</b>                                          | <u>13 686 636</u>          | <u>14 821 351</u>          |
|                                                        | <u><u>\$34 005 009</u></u> | <u><u>\$34 867 061</u></u> |
| <b>COMMITMENTS</b> (Note 10)                           |                            |                            |

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 BÉCANCOUR****CASH FLOWS**

for the year ended March 31, 2005

|                                                                      | <u>2005</u>        | <u>2004</u><br>(adjusted) |
|----------------------------------------------------------------------|--------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                          |                    |                           |
| Excess expenditure over revenue                                      | \$(1 134 715)      | \$(77 074)                |
| Adjustments for:                                                     |                    |                           |
| Amortization of government assistance                                | (77 500)           | (31 305)                  |
| Depreciation of fixed assets                                         | 2 012 780          | 1 947 569                 |
| Gain on sale of land                                                 |                    | (195 346)                 |
| (Gain) Loss on disposal of fixed assets                              | <u>(147 545)</u>   | <u>679</u>                |
|                                                                      | 653 020            | 1 644 523                 |
| Changes in assets and liabilities related to operations (Note 11)    | <u>(457 944)</u>   | <u>577 010</u>            |
| Cash flows related to operating activities                           | <u>195 076</u>     | <u>2 221 533</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                         |                    |                           |
| Acquisition of fixed assets                                          | (935 856)          | (702 228)                 |
| Proceeds from disposal of fixed assets                               | <u>147 545</u>     | <u>80</u>                 |
| Cash flows related to investment activities                          | <u>(788 311)</u>   | <u>(702 148)</u>          |
| <b>FINANCING ACTIVITIES</b>                                          |                    |                           |
| Cash flows related to financing activities:<br>government assistance | <u>358 211</u>     | <u></u>                   |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>              | (235 024)          | 1 519 385                 |
| <b>CASH AND CASH EQUIVALENTS (DEFICIENCY) BEGINNING OF YEAR</b>      | <u>1 444 590</u>   | <u>(74 795)</u>           |
| <b>CASH AND CASH EQUIVALENTS END OF YEAR (Note 11)</b>               | <u>\$1 209 566</u> | <u>\$1 444 590</u>        |

The notes are an integral part of these financial statements.

## SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

#### 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) for the purpose of fostering the economic development of Québec by developing and operating, with self-financing as an objective, an industrial park with harbour facilities within the territory of the town of Bécancour. Under federal and provincial tax legislation, the Société is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Cash and cash equivalents

Cash and cash equivalents comprise petty cash, bank balances less bank loan and investments in money market instruments.

##### Spare parts inventory

The spare parts inventory is valued at the lower of cost, determined according to the first-in, first-out method, and replacement value.

##### Land inventory

Land inventory is recorded at the lower of average acquisition cost and net realizable value. Municipal and school taxes, along with any interest charges related to the purchase of this land, are charged to operations.

##### Fixed assets

Fixed assets are recorded at cost. They are depreciated 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%   |

##### Deferred government assistance

Subsidies for the acquisition of fixed assets are recorded as deferred government assistance and transferred to results using the same method and amortization rates as subsidized fixed assets.

##### Pension plan

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**3. CORRECTION TO THE FINANCIAL STATEMENTS OF PAST FISCAL YEARS**

Beginning this fiscal year, the Société changed its amortization of fixed assets using the straight-line method. It now amortizes fixed assets according to the precise acquisition and disposal dates, whereas it formerly amortized a full year in the year of acquisition and nothing in the year of disposal.

This change, applied retroactively, increased the following items at March 31:

|                                         | <u>2004</u> |
|-----------------------------------------|-------------|
| <b>Revenue and expenditure</b>          |             |
| Revenue                                 |             |
| (Gain) Loss on disposal of fixed assets | \$166       |
| Amortization of government assistance   | 86          |
| Depreciation of fixed assets            | 70 382      |
| Excess expenditure over revenue         | 70 462      |
| <b>Balance sheet</b>                    |             |
| Fixed assets                            | \$1 871 762 |
| Deferred government assistance          | 3 168       |
| Equity                                  | 1 868 594   |

**4. REVENUE**

|                                                                     | <u>2005</u>               | <u>2004</u><br>(adjusted) |
|---------------------------------------------------------------------|---------------------------|---------------------------|
| <b>Operating revenue:</b>                                           |                           |                           |
| Port revenue                                                        | \$1 955 372               | \$2 568 182               |
| Industrial water service                                            | 1 131 519                 | 1 101 102                 |
| Recovery of certain maintenance costs<br>from the town of Bécancour | 850 000                   | 850 000                   |
| Building rental                                                     | 567 067                   | 447 821                   |
| Interest on cash on hand and term deposits                          | 29 757                    | 19 626                    |
| Public services related to the sale of land                         |                           | 576 510                   |
| Gain (loss) on disposal of fixed assets                             | 147 545                   | (679)                     |
| Amortization of government assistance                               | 77 500                    | 31 305                    |
| Other revenue (losses)                                              | 15 951                    | (3 868)                   |
|                                                                     | <u>4 774 711</u>          | <u>5 589 999</u>          |
| <b>Sale of land:</b>                                                |                           |                           |
| Proceeds from sale of land                                          |                           | 275 735                   |
| Cost of land sold                                                   |                           | 80 389                    |
|                                                                     |                           | <u>195 346</u>            |
|                                                                     | <u><u>\$4 774 711</u></u> | <u><u>\$5 785 345</u></u> |



**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**5. OPERATING EXPENSES BY SECTOR OF ACTIVITY,  
BEFORE DEPRECIATION OF FIXED ASSETS**

|                                                | 2005               | 2004               |
|------------------------------------------------|--------------------|--------------------|
| General administration                         | \$897 225          | \$1 055 991        |
| Industrial water plant and distribution system | 752 773            | 714 705            |
| Buildings                                      | 375 060            | 367 876            |
| Harbour facilities                             | 348 928            | 238 106            |
| Transportation network                         | 267 408            | 249 814            |
| Vehicles and equipment                         | 126 463            | 139 146            |
| Water supply and sewer systems                 | 68 379             | 88 634             |
|                                                | <u>\$2 836 236</u> | <u>\$2 854 272</u> |

**6. ACCOUNTS RECEIVABLE**

|                       | 2005             | 2004             |
|-----------------------|------------------|------------------|
| Clients               | \$416 528        | \$362 179        |
| Government assistance | 358 211          |                  |
| Other                 | 54 689           | 1 371            |
|                       | <u>\$829 428</u> | <u>\$363 550</u> |

**7. FIXED ASSETS**

|                                                   | 2005                |                             |                     | 2004<br>(adjusted)  |
|---------------------------------------------------|---------------------|-----------------------------|---------------------|---------------------|
|                                                   | Cost                | Accumulated<br>depreciation | Net                 | Net                 |
| Land                                              | \$28 069            |                             | \$28 069            | \$28 069            |
| Buildings, storage areas and parking<br>space     | 3 482 780           | \$2 177 463                 | 1 305 317           | 1 273 755           |
| Harbour facilities                                | 38 943 107          | 21 584 713                  | 17 358 394          | 17 709 172          |
| Vehicles and equipment                            | 695 503             | 617 381                     | 78 122              | 75 915              |
| Water supply and sewer systems                    | 5 857 620           | 4 819 421                   | 1 038 199           | 1 203 649           |
| Industrial water plant and distribution<br>system | 11 773 035          | 8 404 623                   | 3 368 412           | 3 676 996           |
| Transportation network:                           |                     |                             |                     |                     |
| Roads and streets                                 | 9 746 529           | 7 888 599                   | 1 857 930           | 2 087 742           |
| Rail network                                      | 1 472 564           | 392 577                     | 1 079 987           | 1 116 801           |
| Office furniture and equipment                    | 281 280             | 224 976                     | 56 304              | 65 086              |
|                                                   | <u>\$72 280 487</u> | <u>\$46 109 753</u>         | <u>\$26 170 734</u> | <u>\$27 237 185</u> |

**8. BANK BORROWING**

At March 31, 2005, the Société had a guaranteed bank credit line of \$1 500 000 that is renewable annually on October 31. The amounts used bear interest at the prime rate.

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**9. LONG-TERM DEBT**

|                                                                                                                                                                              | 2005                | 2004                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 4.951%, without terms and conditions for reimbursement for capital, maturing April 2005   | \$8 000 000         | \$8 000 000         |
| Term note from the Financing Fund of the Gouvernement du Québec, effective rate of 6.186%, without terms and conditions for reimbursement for capital, maturing October 2012 | 10 000 000          | 10 000 000          |
|                                                                                                                                                                              | <u>\$18 000 000</u> | <u>\$18 000 000</u> |

**10. COMMITMENTS****Partial financing of Bécancour's water supply and sewer systems**

Under an agreement with the town of Bécancour, ratified by the Government 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, 2005, this commitment was \$340 000 (2004: \$387 000).

Changes in bonded borrowings related to this commitment during the year are as follows:

| Initial issues   | As at March 31, 2004 | Payments during the year |                 |                 | As at March 31, 2005 |
|------------------|----------------------|--------------------------|-----------------|-----------------|----------------------|
|                  |                      | Amount                   | Interest        | Principal       |                      |
| <u>\$672 000</u> | <u>\$316 400</u>     | <u>\$47 103</u>          | <u>\$14 503</u> | <u>\$32 600</u> | <u>\$283 800</u>     |

The interest rates related to this issue vary from 3.35% to 5.0% until July 3, 2007.

**11. CASH FLOWS**

The additional cash flow information is as follows:

|                                                                | 2005               | 2004             |
|----------------------------------------------------------------|--------------------|------------------|
| <b>Changes in assets and liabilities related to operations</b> |                    |                  |
| Accounts receivable                                            | \$(465 878)        | \$306 978        |
| Spare parts inventory                                          | (6 221)            | 9 738            |
| Prepaid expenses                                               | 32 676             | 11 434           |
| Land inventory                                                 |                    | 275 735          |
| Accounts payable and accruals                                  | 12 769             | 17 023           |
| Accrued interest on the long-term debt                         | (833)              | 1 889            |
| Deferred revenue                                               | (25 600)           | (51 694)         |
| Provision for sick leave                                       | (4 857)            | 5 907            |
|                                                                | <u>\$(457 944)</u> | <u>\$577 010</u> |

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. CASH FLOWS (cont'd)**

|                                 | 2005               | 2004               |
|---------------------------------|--------------------|--------------------|
| <b>Cash and cash equivalent</b> |                    |                    |
| Cash on hand                    | \$709 566          | \$444 590          |
| Term deposits                   | 500 000            | 1 000 000          |
|                                 | <u>\$1 209 566</u> | <u>\$1 444 590</u> |
| <b>Additional information</b>   |                    |                    |
| Interest paid on long-term debt | <u>\$993 880</u>   | <u>\$993 880</u>   |

**12. 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 either joint control or significant influence by it. The Société 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.

**13. FUTURE FRINGE BENEFITS**
**Pension plan**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$26 700 (2004: \$27 100). The Société's liability towards this Government plan is restricted to its contributions as an employer.

**Provision for sick leave**

|                               | 2005            | 2004            |
|-------------------------------|-----------------|-----------------|
| Opening balance               | \$89 125        | \$83 218        |
| Charge for the year           | 20 383          | 14 758          |
| Benefits paid during the year | <u>(25 240)</u> | <u>(8 851)</u>  |
| Closing balance               | <u>\$84 268</u> | <u>\$89 125</u> |

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

**14. FINANCIAL INSTRUMENTS**

The fair value of the elements of assets and short-term liabilities is equal to their book value given that they mature in the near future.

The fair value of the long-term debt is determined using the capitalized value of future cash flows under current funding agreements, based on market rates available to the Gouvernement du Québec for borrowings with similar conditions and terms.

The following chart shows the book value and the fair value of the Société's long-term financial instruments:

|                 | <u>2005</u>  | <u>2004</u>  |
|-----------------|--------------|--------------|
| Long-term debt: |              |              |
| Book value      | \$18 000 000 | \$18 000 000 |
| Fair value      | 19 510 740   | 19 777 481   |

**15. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR****MANAGEMENT'S REPORT**

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The financial statements of the Société du parc industriel et portuaire de Bécancour were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 the auditing standards that are generally accepted in Canada. 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.

Danielle Hébert, CA  
Director of Finance

Me Guy Leblanc  
President and Chief Executive Officer

Bécancour, May 3, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Société du parc industriel et portuaire de Bécancour as at March 31, 2005 and the statements of revenue and expenditure and equity and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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, given the retroactive application of the change in the manner of reporting the amortization of fixed assets and deferred government assistance disclosed 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, May 3, 2005

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE QUÉBEC-SUD**  
(R.S.Q., c. S-16.01)

REVENUE AND EXPENDITURE AND DEFICIT

|                                                  | Fiscal year<br>from April 1,<br>2004 to<br>March 23,<br>2005 | Fiscal year<br>from April 1,<br>2003 to<br>March 31,<br>2004 |
|--------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
| <b>REVENUE</b>                                   |                                                              |                                                              |
| Gouvernement du Québec subsidy                   | \$50 000                                                     | \$50 000                                                     |
| Interest on short-term investment                | 3 395                                                        | 5 835                                                        |
|                                                  | <u>53 395</u>                                                | <u>55 835</u>                                                |
| <b>OPERATING EXPENSES</b>                        |                                                              |                                                              |
| Salaries and fringe benefits                     | 45 339                                                       | 27 163                                                       |
| Taxes                                            | 28 878                                                       | 29 545                                                       |
| Consulting fees                                  | 18 475                                                       | 10 025                                                       |
| Professional fees                                | 19 241                                                       | 5 107                                                        |
| Rent                                             | 7 042                                                        | 7 056                                                        |
| Insurance                                        | 6 089                                                        | 6 187                                                        |
| Telecommunications and postal charges            | 1 488                                                        | 1 457                                                        |
| Office expenses                                  | 2 344                                                        | 1 559                                                        |
| Travelling and representation                    | 3 254                                                        | 746                                                          |
| Bank charges                                     | 178                                                          | 211                                                          |
| Depreciation of fixed assets                     | 193                                                          | 340                                                          |
| Loss on disposal of fixed assets                 | 182                                                          |                                                              |
| Commission on sale                               |                                                              | 1 265                                                        |
| Loss on sale of land                             | 1 372 531                                                    | 3 400                                                        |
|                                                  | <u>1 505 234</u>                                             | <u>94 061</u>                                                |
| <b>INSUFFICIENCY OF REVENUE OVER EXPENDITURE</b> | 1 451 839                                                    | 38 226                                                       |
| <b>DEFICIT, BEGINNING OF YEAR</b>                | <u>3 111 629</u>                                             | <u>3 073 403</u>                                             |
| <b>DEFICIT, END OF YEAR</b>                      | <u>\$4 563 468</u>                                           | <u>\$3 111 629</u>                                           |

The notes are an integral part of these financial statements.

## SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE QUÉBEC-SUD

## BALANCE SHEET

|                                                              | As at March<br>23, 2005 | As at March<br>31, 2004 |
|--------------------------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                                |                         |                         |
| <b>Current assets</b>                                        |                         |                         |
| Cash on hand                                                 | \$177 474               | \$6 676                 |
| Short-term investment                                        |                         | 224 542                 |
| Prepaid expenses                                             |                         | 2 412                   |
|                                                              | <u>177 474</u>          | <u>233 630</u>          |
| <b>Land for sale</b>                                         |                         | 1 397 000               |
| <b>Fixed assets</b>                                          |                         | <u>745</u>              |
|                                                              | <u>\$177 474</u>        | <u>\$1 631 375</u>      |
| <b>LIABILITIES</b>                                           |                         |                         |
| <b>Current liabilities</b>                                   |                         |                         |
| Accounts payable and accruals                                | <u>\$1 942</u>          | <u>\$4 004</u>          |
| <b>SHAREHOLDERS' EQUITY</b>                                  |                         |                         |
| <b>Capital stock</b>                                         |                         |                         |
| Authorized<br>1 000 common shares with a par value<br>of \$1 |                         |                         |
| Issued and paid up<br>1 000 shares                           | 1 000                   | 1 000                   |
| <b>Contributed surplus</b>                                   | 4 738 000               | 4 738 000               |
| <b>Deficit</b>                                               | <u>(4 563 468)</u>      | <u>(3 111 629)</u>      |
|                                                              | <u>175 532</u>          | <u>1 627 371</u>        |
|                                                              | <u>\$177 474</u>        | <u>\$1 631 375</u>      |

## TERMINATION OF OPERATIONS (Note 2)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 Denis Grenier, Director  
 Jacques Martin, Director

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE QUÉBEC-SUD****CASH FLOWS**

|                                                     | Fiscal year<br>from April 1,<br>2004 to<br>March 23,<br>2005 | Fiscal year<br>from April 1,<br>2003 to<br>March 31,<br>2004 |
|-----------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
| <b>OPERATING ACTIVITIES</b>                         |                                                              |                                                              |
| Excess expenditure over revenue                     | \$(1 451 839)                                                | \$(38 226)                                                   |
| Adjustments for:                                    |                                                              |                                                              |
| Depreciation of fixed assets                        | 193                                                          | 340                                                          |
| Loss on disposal of fixed assets                    | 182                                                          |                                                              |
| Loss on sale of land                                | 1 372 531                                                    | 3 400                                                        |
|                                                     | <u>(78 933)</u>                                              | <u>(34 486)</u>                                              |
| Change in non-cash elements related to operations   |                                                              |                                                              |
| Accounts receivable                                 |                                                              | 1 036                                                        |
| Prepaid expenses                                    | 2 412                                                        | (289)                                                        |
| Accounts payable and accruals                       | <u>(2 062)</u>                                               | <u>1 830</u>                                                 |
| Cash flows used for operating activities            | <u>(78 583)</u>                                              | <u>(31 909)</u>                                              |
| <b>INVESTMENT ACTIVITIES</b>                        |                                                              |                                                              |
| Proceeds from sale of land                          | 24 469                                                       | 11 000                                                       |
| Proceeds from disposal of fixed assets              | <u>370</u>                                                   |                                                              |
| Cash flows provided by investment activities        | <u>24 839</u>                                                | <u>11 000</u>                                                |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>        | <b>(53 744)</b>                                              | <b>(20 909)</b>                                              |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> | <u>231 218</u>                                               | <u>252 127</u>                                               |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>       | <u><b>\$177 474</b></u>                                      | <u><b>\$231 218</b></u>                                      |
| <b>CASH AND CASH EQUIVALENTS ARE AS FOLLOWS:</b>    |                                                              |                                                              |
| Cash on hand                                        | \$177 474                                                    | \$6 676                                                      |
| Short-term investment                               | <u></u>                                                      | <u>224 542</u>                                               |
|                                                     | <u><b>\$177 474</b></u>                                      | <u><b>\$231 218</b></u>                                      |

The notes are an integral part of these financial statements.



## SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE QUÉBEC-SUD

### NOTES TO FINANCIAL STATEMENTS March 23, 2005

#### 1. CONSTITUTION AND PURPOSE

The purpose of the Société du parc industriel et portuaire Québec-Sud, created under a special Act (R.S.Q., c. S-16.01), was to:

- further the development of an industrial park with harbour facilities, located in the territory of the city of Lévis, for major industrial projects;
- manage the above industrial park and harbour facilities, and
- acquire, sell or exchange parcels of land situated at Pointe-de-la-Martinière in the territory of the City of Lévis.

Under the legislation establishing it, the Société is not subject to income tax.

#### 2. TRANSFER OF OPERATIONS

The Act respecting the Société du parc industriel et portuaire Québec-Sud was repealed by a special Act (2004, c. 40) assented to on December 17, 2004. The provisions of this act came into effect on March 23, 2005.

Under this Act, the land the Société owns in the City of Lévis was transferred to the Gouvernement du Québec for \$1, the amounts held at March 23 2005 transferred to Québec's Consolidated Revenue Fund and the Canadian government's share of these amounts remitted to it.

#### 3. ACCOUNTING POLICIES

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Land for sale

Land is recorded at the lesser of cost and net realizable value.

##### Fixed assets

Fixed assets are recorded at cost and depreciated on a diminishing-balance basis at the following rates:

|                                |     |
|--------------------------------|-----|
| Office furniture and equipment | 35% |
| Data processing equipment      | 30% |

##### Contributed surplus

All sums received from the federal and provincial governments since February 1, 1982 under the Canada-Québec subsidiary agreement on the acquisition and development of industrial land at Pointe-de-la-Martinière and the financial participation of the Société in industrial projects are recorded as contributed surplus.

##### Pension plan

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

##### Cash and cash equivalents

The Société's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that are easy to convert in the short term into a known amount whose value is not expected to change significantly.

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE QUÉBEC-SUD**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 23, 2005

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**4. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements, 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 either joint control or significant influence by the Gouvernement du Québec. The Société 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.

**5. PENSION PLAN**

The sole employee of the Société participates in the Government and Public Employees Retirement Plan (RREGOP). This is an interenterprise defined-benefit plan and includes guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement amount to \$768 (2004: \$1 015). The Société's liability towards this Government plan is restricted to its contributions as an employer.

**6. FINANCIAL INSTRUMENTS**

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

**SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE QUÉBEC-SUD****MANAGEMENT'S REPORT**

---

The financial statements of the Société du parc industriel et portuaire Québec-Sud were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with generally accepted accounting principles in Canada.

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 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 the auditing standards that are generally accepted in Canada. 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-Claude Lord  
President and Chief Executive Officer

Québec, April 19, 2005

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**AUDITOR'S REPORT**

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To the Shareholders

I have audited the balance sheet of the Société du parc industriel et portuaire Québec-Sud as at March 23, 2005 and the statements of revenue and expenditure and deficit and cash flows for the period from April 1, 2004 to March 23, 2005. These financial statements are the responsibility of the Société's management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 23, 2005 and the results of its operations and cash flows for the period from April 1, 2004 to March 23, 2005, 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 General of Québec

Québec, April 19, 2005

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**  
(R.S.Q., c. S-17)

**CONSOLIDATED STATEMENT OF OPERATIONS**  
year ended December 31, 2004, with comparative figures for 2003  
(in thousands of dollars)

|                                                                       | 2004             | 2003             |
|-----------------------------------------------------------------------|------------------|------------------|
| <b>REVENUE</b> (Note 3)                                               | <u>1 339 747</u> | <u>985 721</u>   |
| <b>OPERATING EXPENSES:</b>                                            |                  |                  |
| Cost of goods sold and services                                       | 1 165 841        | 903 919          |
| Selling, general and administrative expenses                          | 143 485          | 181 881          |
| Amortization                                                          | 85 966           | 65 316           |
| Goodwill impairment (Note 11)                                         | <u>926</u>       | <u>13 337</u>    |
|                                                                       | <u>1 396 218</u> | <u>1 164 453</u> |
| <b>OPERATING LOSS OF SUBSIDIARIES AND JOINT VENTURES</b>              | (56 471)         | (178 732)        |
| Share of losses of entities subject to significant influence          | (325)            | (82 445)         |
| Dividend and interest income on long-term investments                 | <u>10 375</u>    | <u>9 582</u>     |
| Operating loss before the undernoted items:                           | <u>(46 421)</u>  | <u>(251 595)</u> |
| Net unrealized loss on investment companies                           | (31 416)         | (93 344)         |
| Impairment of property, plant and equipment and other assets (Note 4) | (48 451)         | (163 958)        |
| Provision for loss on other long-term investments (Note 5)            | (67 997)         | (107 805)        |
| Net gain on disposal of businesses and long-term investments (Note 6) | <u>134 571</u>   | <u>38 017</u>    |
| <b>OPERATING LOSS</b>                                                 | (59 714)         | (578 685)        |
| Financial income (Note 7)                                             | 134              | 51 253           |
| Other income                                                          | <u>9 367</u>     | <u>16 704</u>    |
| <b>NET LOSS</b> (Note 3)                                              | <u>(50 213)</u>  | <u>(510 728)</u> |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF (DEFICIT) RETAINED EARNINGS**  
year ended December 31, 2004, with comparative figures for 2003  
(in thousands of dollars)

|                                                                                                  | 2004             | 2003             |
|--------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>BALANCE, BEGINNING OF YEAR:</b>                                                               |                  |                  |
| As previously reported                                                                           | (351 528)        | 159 200          |
| Restatement due to changes in accounting policy related to asset retirement obligations (Note 1) | (914)            |                  |
| As restated                                                                                      | <u>(352 442)</u> | <u>159 200</u>   |
| <b>NET LOSS</b>                                                                                  | <u>(50 213)</u>  | <u>(510 728)</u> |
| <b>BALANCE, END OF YEAR</b>                                                                      | <u>(402 655)</u> | <u>(351 528)</u> |

See accompanying notes to consolidated financial statements.

## SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

## CONSOLIDATED BALANCE SHEET

December 31, 2004, with comparative figures for 2003

(in thousands of dollars)

|                                                                   | 2004                    | 2003                    |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                                     |                         |                         |
| <b>Current assets:</b>                                            |                         |                         |
| Cash and cash equivalents                                         | 99 944                  | 82 829                  |
| Temporary investments                                             | 8 878                   | 104 060                 |
| Accounts receivable                                               | 207 224                 | 166 844                 |
| Inventories                                                       | 182 407                 | 158 700                 |
| Prepaid expenses                                                  | 10 562                  | 5 764                   |
| Current assets held for sale (Note 8)                             | 22 155                  | 45 203                  |
| Current portion of long-term investments (Note 9)                 | 40 953                  | 13 922                  |
|                                                                   | <u>572 123</u>          | <u>577 322</u>          |
| <b>Long-term assets held for sale (Note 8)</b>                    | 26 956                  | 73 911                  |
| <b>Long-term investments (Note 9)</b>                             | 585 927                 | 811 957                 |
| <b>Property, plant and equipment (Note 10)</b>                    | 1 269 523               | 1 299 519               |
| <b>Goodwill (Note 11)</b>                                         | 919                     | 2 655                   |
| <b>Other assets (Note 12)</b>                                     | 117 031                 | 126 586                 |
|                                                                   | <u><u>2 572 479</u></u> | <u><u>2 891 950</u></u> |
| <b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>                       |                         |                         |
| <b>Current liabilities:</b>                                       |                         |                         |
| Bank loans                                                        | 17 135                  | 15 395                  |
| Accounts payable and accrued liabilities                          | 219 373                 | 243 701                 |
| Current liabilities of businesses held for sale (Note 8)          | 26 604                  | 52 645                  |
| Current portion of long-term debt (Note 13)                       | 170 202                 | 123 650                 |
| Current portion of share subscriptions                            | 9 086                   | 9 445                   |
|                                                                   | <u>442 400</u>          | <u>444 836</u>          |
| <b>Long-term liabilities of businesses held for sale (Note 8)</b> | 14 518                  | 20 441                  |
| <b>Long-term debt (Note 13)</b>                                   | 298 647                 | 566 672                 |
| <b>Share subscriptions</b>                                        | 14 247                  | 19 086                  |
| <b>Other long-term liabilities (Note 14)</b>                      | 30 768                  | 28 330                  |
| <b>Shareholder's equity:</b>                                      |                         |                         |
| Capital stock (Note 15)                                           | 2 173 340               | 2 173 340               |
| Deficit                                                           | (402 655)               | (351 528)               |
| Foreign currency translation adjustments                          | 1 214                   | (9 227)                 |
|                                                                   | <u>1 771 899</u>        | <u>1 812 585</u>        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                 | <u><u>2 572 479</u></u> | <u><u>2 891 950</u></u> |

## COMMITMENTS AND GUARANTEES (Note 21)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors,  
Richard J. Renaud, Director  
Jean-Pierre Mortreux, Director

## SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS  
year ended December 31, 2004, with comparative figures for 2003  
(in thousands of dollars)

|                                                                          | 2004      | 2003      |
|--------------------------------------------------------------------------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |           |           |
| Net loss                                                                 | (50 213)  | (510 728) |
| Adjustments for:                                                         |           |           |
| Amortization                                                             | 85 966    | 65 316    |
| Goodwill impairment                                                      | 926       | 13 337    |
| Share in losses of entities subject to significant influence             | 325       | 82 445    |
| Impairment of property, plant and equipment and other assets             | 48 451    | 163 958   |
| Provision for loss on long-term investments                              | 99 413    | 201 149   |
| Net gain on disposal of businesses and long-term investments             | (134 571) | (38 017)  |
| Foreign exchange gain on long-term debt, net of temporary investments    | (25 050)  | (63 097)  |
| Dividends received from entities subject to significant influence        | 3 358     | 7 752     |
| Employee future benefits                                                 | 2 330     | 2 794     |
| Other                                                                    | (3 133)   | (6 192)   |
|                                                                          | 27 802    | (81 283)  |
| Net change in non-cash operating working capital items (Note 16)         | (78 901)  | 3 550     |
|                                                                          | (51 099)  | (77 733)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                              |           |           |
| Temporary investments                                                    | 96 510    | (64 035)  |
| Acquisitions of businesses and long-term investments (Notes 3 and 17)    | (23 355)  | (141 781) |
| Disposal of businesses and long-term investments (Notes 16 c) and 18 a)) | 343 899   | 58 954    |
| Additions to property, plant and equipment (Notes 3 and 16 b))           | (205 835) | (364 358) |
| Disposal of property, plant and equipment                                | 250       | 454       |
| Other investing activities (Note 16 b))                                  | (22 742)  | (32 092)  |
|                                                                          | 188 727   | (542 858) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                              |           |           |
| Bank loans                                                               | (375)     | 6 669     |
| Increase in long-term debt                                               | 146 206   | 357 793   |
| Repayment of long-term debt                                              | (266 003) | (23 335)  |
| Payment of share subscriptions                                           | (5 898)   | (4 456)   |
|                                                                          | (126 070) | 336 671   |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>  | 11 558    | (283 920) |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                      | 90 559    | 374 479   |
| <b>CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS</b>        | 99 944    | 82 829    |
| <b>CASH AND CASH EQUIVALENTS RELATED TO BUSINESSES HELD FOR SALE</b>     | 2 173     | 7 730     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                            | 102 117   | 90 559    |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)  
year ended December 31, 2004, with comparative figures for 2003  
(in thousands of dollars)

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**CASH AND CASH EQUIVALENTS ARE COMPRISED OF:**

|                                | <u>2004</u>    | <u>2003</u>     |
|--------------------------------|----------------|-----------------|
| Cash on hand and bank balances | 74 604         | 45 235          |
| Short-term liquid investments  | 35 487         | 57 114          |
| Bank overdrafts                | <u>(7 974)</u> | <u>(11 790)</u> |
|                                | <u>102 117</u> | <u>90 559</u>   |

**SUPPLEMENTAL DISCLOSURE RELATED TO CASH FLOWS (Note 16):**

|               |               |               |
|---------------|---------------|---------------|
| Interest paid | <u>28 436</u> | <u>27 297</u> |
|---------------|---------------|---------------|

See accompanying notes to consolidated financial statements.

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

year ended December 31, 2004

(in thousands of dollars)

The Company was created in 1962 under the Act respecting Société générale de financement du Québec, which was amended in 1996. The Government of Québec is the sole shareholder. The purpose of the Company is to carry out, in co-operation with partners and in accordance with accepted requirements of profitability, economic development projects in the industrial sector in conformity with the economic development policies of the Government of Québec. It has established a presence mainly in the following sectors: Chemicals and Petrochemicals, Mines, Metals and Industrial, Forest Products and Energy, Healthcare, Technology and Agri-food.

**1. CHANGES IN ACCOUNTING POLICIES****a) Asset retirement obligations**

In March 2003, the Canadian Institute of Chartered Accountants (CICA) released Section 3110, "Asset Retirement Obligations," which establishes standards for the recognition, measurement and disclosures of liabilities for asset retirement obligations and the associated asset retirement costs. The section is effective for fiscal years beginning on or after January 1, 2004.

Under these new standards, the fair value of a liability for a legal obligation to retire an asset is recognized in the period in which the obligation is incurred when a reasonable estimate can be made. The resulting costs are capitalized as part of the long-term asset's carrying amount and amortized over the asset's remaining useful life.

When an estimate for the cost of an asset retirement obligation can be made, the policy was applied retroactively without restatement of previous years' amounts. The assets and liabilities thereby recorded as at January 1, 2004 were \$2 115 000 and \$1 201 000, respectively. In addition, this change had the effect of increasing the deficit as at January 1, 2004 by \$914 000.

**b) Investment companies**

In January 2004, the Company adopted the Accounting Standards Board (AcSB's) new Accounting Guideline on Investment Companies (AcG-18). In this guideline, criteria are provided to determine whether a company should be classified as an investment company, and state that investments held by these same companies must all be recorded at fair value. The Company applied AcG-18 beginning on January 1, 2004. Consequently, the Company transferred investments recorded as venture capital to new investment companies and continues to account for these investments at fair value.

**c) Consolidation of variable interest entities**

In June 2003, the AcSB adopted the "Consolidation of Variable Interest Entities" Accounting Guideline (AcG15), which requires companies to identify as "variable interest entities" (VIEs) those entities in which they hold a right, and that they determine whether they are the primary beneficiary and, if so, that they consolidate them in their financial statements. The adoption of this section did not have an impact on the consolidated financial statements of the Company for the year ended December 31, 2004.

**d) Employee future benefits**

In March 2004, the CICA amended Section 3461, "Employee Future Benefits," of its Handbook. Section 3461 requires additional disclosures of assets, cash flows and net cost of periodic benefits related to a defined benefit plan and other employee future benefit plans. The new annual disclosure requirements apply to periods ending on or after June 30, 2004. The note to the financial statements on employee future benefits has been adjusted to take these new requirements into account.

**e) Hedging relationships**

On January 1, 2004, the Company adopted the CICA's new recommendations on accounting for hedging relationships in Accounting Guideline 13 (AcG-13), which provides for more restrictive conditions. The Accounting Guideline addresses the identification, designation, documentation and effectiveness of hedging relationships with regard to the application of hedge accounting. It also covers the discontinuance of hedge accounting and determines preconditions which must be satisfied in order to apply hedge accounting.



**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousands of dollars)

**1. CHANGES IN ACCOUNTING POLICIES (cont'd)****f) Generally accepted accounting principles**

On January 1, 2004, the Company adopted the CICA's new recommendations in Section 1100 of the Handbook "Generally Accepted Accounting Principles." This section describes Canadian Generally Accepted Accounting Principles (GAAP) and defines their sources. It also provides indications about sources to consult for choosing accounting principles to use and determining the information to disclose when the subject is not covered directly by the primary sources of GAAP; thus establishing a new classification of Canadian GAAP.

Consequently, the Company recorded a provision for impairment for mining exploration projects when the costs incurred in the past three years were below a level allowing for an increase in knowledge of the property.

**2. SIGNIFICANT ACCOUNTING POLICIES****a) Principles of consolidation**

These consolidated financial statements include the accounts of Société générale de financement du Québec, its subsidiaries and joint ventures. The accounts of the subsidiaries are accounted for using the consolidation method, whereas the accounts of the Company's joint ventures are accounted for 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 valuation of venture capital investments and other long-term investments, property, plant and equipment and goodwill. Actual results could differ from those estimates. Those estimates are reviewed periodically and, as adjustments become necessary, they are reported in operations in the period in which they are known.

**c) Fair value of financial instruments**

The Company has estimated the fair value of its financial instruments based on current interest rates, related market values and current pricing of financial instruments with comparable terms. Unless indicated otherwise, the carrying value of these financial instruments, especially short-term ones such as cash and cash equivalents, temporary investments, accounts receivable, bank loans, and accounts payable and accrued liabilities, approximates their fair value.

**d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank balances, short-term liquid investments with maturities of three months or less and bank overdrafts.

**e) Temporary investments**

Temporary investments consist primarily of commercial paper and bankers' acceptances with maturities exceeding three months and are recorded at the lower of cost and market value.

**f) Inventories**

Inventories are valued at the lower of cost and market value. Cost is determined by using the average cost method and the first-in, first-out method, and market value is defined as replacement cost or net realizable value.

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousands of dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****g) Long-term investments**

Investments in which the Company can exercise significant influence are recorded using the equity method. This involves recording the Company's share of the earnings of entities subject to significant influence from the date of acquisition.

Investments in which the Company does not exercise any control or significant influence are recorded at cost.

If an other than temporary decline in value occurs, the Company's policy is to write down the investment to its estimated net realizable value.

Speculative investments in companies for the purpose of supporting their development are considered venture capital investments and are recorded at their fair value which is determined by the Company's management as follows:

- i) Listed shares are recorded based on the quoted market price. When this value does not adequately represent the fair value, such investments are valued using the same valuation method as for unlisted shares. Shares with quoted values but which have restricted negotiability or transferability are discounted. In determining the amount of this discount, the Company takes into account the nature and duration of the restriction and the relative instability of the security price. Valuations are reviewed annually by a valuation committee.
- ii) Unlisted shares are valued in accordance with generally accepted valuation techniques and are reviewed annually by a valuation committee.

**h) Property, plant and equipment**

Property, plant and equipment are recorded at cost, less related government grants, which are recorded when eligible expenses are incurred. Cost consists of acquisition or construction costs, including interest and administrative expenses incurred during the construction of plants. Amortization is calculated mainly using the straight-line method based on the following estimated useful lives:

| <u>Asset</u>            | <u>Period</u>  |
|-------------------------|----------------|
| Building                | 10 to 40 years |
| Machinery and equipment | 3 to 25 years  |
| Other                   | 3 to 10 years  |

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.

**i) Impairment of long-term assets**

A long-term asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This recoverability is measured by comparing the carrying amount of assets with the estimated amount of future undiscounted cash flows directly related to the use of assets. 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.

**j) Disposal of long-lived assets and discontinued operations**

A long-lived asset held 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 disposal costs, and must not be amortized as long as it is recorded 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 discontinuance, 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.

## SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2004

(in thousands of dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### k) Goodwill

Goodwill represents the excess of the cost of acquired businesses 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 the asset 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. The fair value of a reporting unit is calculated using valuations or discounted cash flow methods.

Goodwill included in investments in entities 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.

### l) Operating licenses

The cost of operating licences is capitalized and amortized over 15 years upon commencement of operations.

### m) Mining properties

Mining properties include 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 abandoned, or it is estimated that the costs incurred, cannot be recovered, all costs relating thereto are recorded in the statement of operation during the year. The costs incurred to maintain these abandoned mining properties are also recorded in the statement of operations.

### n) Start-up costs

Start-up costs include certain financial and other costs incurred during the start-up phase of certain plants. These costs are amortized using the straight-line method over a period of 3 to 5 years.

### o) Electricity purchase agreement

The cost of the electricity purchase agreement is based on a risk-sharing formula according to the fluctuation of the price of aluminum and is amortized on a straight-line basis over the term of the agreement (15 years starting in 2002).

### p) 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, except for those of self-sustaining foreign joint ventures which are translated at the rate prevailing at year-end. Revenue and expenses are translated at the exchange rates prevailing on the transaction dates. Exchange gains or losses are included in the calculation of the results for the year.

The "Foreign currency translation adjustments" item in shareholder's equity primarily includes the exchange gains or losses arising from the translation of the investment in self-sustaining foreign joint ventures.

### q) 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.

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousands of dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**
**q) Employee future benefits (cont'd)**

Past service costs arising from a plan amendment are amortized 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.

**r) Derivative financial instruments**

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 is not to utilize derivative financial instruments for trading or speculative purposes.

Unrealized gains and losses on derivative financial instruments, which serve to hedge certain future identifiable risks, are accounted for in the statement of operations together with the underlying items being hedged. Realized and unrealized gains or losses associated with derivative financial instruments which have been terminated or cease to be effective prior to maturity are deferred as assets or liabilities and recognized in the statement of operations in the period in which the underlying original hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized and unrealized gains and losses on such derivative financial instrument are recorded in the statement of operations.

**s) Tax status**

As the Company is government-owned, neither it nor its wholly-owned subsidiaries are subject to income taxes.

**3. SUMMARY OF SEGMENTED INFORMATION**

The Company has operating activities in six sectors. As at December 31, 2004, most investments were in the following sectors: Chemicals and Petrochemicals, Mines, Metals and Industrial, Forest Products and Energy, Healthcare, Technology and Agri-food. The Corporate sector includes the following investments: Domtar, Rona and Saputo.

|                              |      | Revenue   | Net<br>earnings<br>(Net<br>loss) | Segment<br>assets | Additions<br>to property,<br>plant and<br>equipment | Acquisi-<br>tions of<br>businesses<br>and long-<br>term<br>investments |
|------------------------------|------|-----------|----------------------------------|-------------------|-----------------------------------------------------|------------------------------------------------------------------------|
| Chemicals and Petrochemicals | 2004 | 683 968   | (5 842)                          | 839 937           | 29 946                                              |                                                                        |
|                              | 2003 | 352 043   | (6 624)                          | 771 554           | 87 557                                              |                                                                        |
| Mines, Metals and Industrial | 2004 | 214 413   | 8 313                            | 616 447           | 111 587                                             | 3 989                                                                  |
|                              | 2003 | 284 637   | (211 611)                        | 676 618           | 86 777                                              | 31 080                                                                 |
| Forest Products and Energy   | 2004 | 291 420   | 20 777                           | 465 036           | 41 555                                              | 4 524                                                                  |
|                              | 2003 | 190 285   | (67 531)                         | 560 403           | 166 673                                             | 1 130                                                                  |
| Healthcare                   | 2004 | 15 987    | (76 079)                         | 145 667           | 19 178                                              | 3 519                                                                  |
|                              | 2003 | 24 926    | (59 028)                         | 228 053           | 19 814                                              | 22 586                                                                 |
| Technology                   | 2004 |           | (34 207)                         | 65 660            |                                                     | 6 206                                                                  |
|                              | 2003 | 3 822     | (148 645)                        | 104 602           | 679                                                 | 58 302                                                                 |
| Agri-food                    | 2004 | 133 959   | (7 033)                          | 189 895           | 3 082                                               | 5 117                                                                  |
|                              | 2003 | 130 008   | (6 575)                          | 203 142           | 2 475                                               | 28 683                                                                 |
| Corporate                    | 2004 |           | 62 376                           | 219 022           |                                                     |                                                                        |
|                              | 2003 |           | 9 707                            | 312 076           |                                                     |                                                                        |
| Segment total                | 2004 | 1 339 747 | (31 695)                         | 2 541 664         | 205 348                                             | 23 355                                                                 |
|                              | 2003 | 985 721   | (490 307)                        | 2 856 448         | 363 975                                             | 141 781                                                                |
| Corporate activities         | 2004 |           | (18 518)                         | 30 815            | 487                                                 |                                                                        |
|                              | 2003 |           | (20 421)                         | 35 502            | 383                                                 |                                                                        |
| Consolidated total           | 2004 | 1 339 747 | (50 213)                         | 2 572 479         | 205 835                                             | 23 355                                                                 |
|                              | 2003 | 985 721   | (510 728)                        | 2 891 950         | 364 358                                             | 141 781                                                                |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousands of dollars)

**4. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS**

An impairment loss of \$39 250 000 was recorded in the statement of operations to reduce the carrying amounts of assets held for sale at their fair values based on expected selling prices.

In addition, impairment loss totalling \$9 201 000 was recorded during the year for property, plant and equipment and other assets.

**5. PROVISION FOR LOSS ON OTHER LONG-TERM INVESTMENTS**

During the year, the Company reduced the excess of the acquisition cost over the net carrying value of two of its investments for a total of \$36 000 000. These impairments in value reflect the downward trend of the areas of activity of those businesses. A provision for an other than temporary decline in value of \$9 500 000 was also recorded for the long-term investment in Theratechnologies. Additional provisions for other than temporary declines in value, totalling \$22 500 000, were also recorded during the year.

**6. NET GAIN ON DISPOSAL OF BUSINESSES AND LONG-TERM INVESTMENTS**

The Company disposed of all of its shares of Saputo and its interest in Intragaz. These transactions resulted in a gain on disposal of \$105 450 000. In addition, other realizations made during the year resulted in gains on disposal totalling \$29 121 000.

**7. FINANCIAL INCOME (EXPENSES)**

|                                                                        | 2004     | 2003     |
|------------------------------------------------------------------------|----------|----------|
| Interest on long-term debt                                             | (21 943) | (20 000) |
| Foreign exchange gain on long-term debt                                | 25 050   | 74 032   |
| Foreign exchange loss on temporary investments                         |          | (10 935) |
| Other foreign exchange loss and financial expenses                     | (6 929)  | (2 888)  |
|                                                                        | (3 822)  | 40 209   |
| Interest income on cash and cash equivalents and temporary investments | 3 956    | 11 044   |
|                                                                        | 134      | 51 253   |

**8. ASSETS HELD FOR SALE**

In 2004, the Company continued to implement its plan for the sale of certain of its non-strategic investments. These investments are classified and recorded as held-for-sale. An impairment loss of \$39 250 000 was recorded in the statement of operations under "Impairment of property, plant and equipment and other assets," to reduce the carrying amounts of these investments at their estimated fair values less costs to sell. Fair values were determined to reflect selling prices. The disposal of these investments is expected to be completed in 2005, and the first one was completed in February 2005.

Some financial information was reclassified in the prior year to record these investments as assets and liabilities of businesses held for sale.

The assets and liabilities of businesses held for sale are as follows:

|                                          | 2004   | 2003   |
|------------------------------------------|--------|--------|
| Current assets held for sale:            |        |        |
| Cash and cash equivalents                | 2 173  | 7 730  |
| Temporary investments                    | 3 075  | 4 456  |
| Accounts receivable                      | 4 967  | 18 070 |
| Inventories                              | 6 121  | 12 331 |
| Prepaid expenses                         | 192    | 373    |
| Current portion of long-term investments |        | 2 243  |
| Long-term assets of business sold        | 5 627  |        |
|                                          | 22 155 | 45 203 |

## SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
year ended December 31, 2004  
(in thousands of dollars)

**8. ASSETS HELD FOR SALE** (cont'd)

The assets and liabilities of businesses held for sale are as follows (cont'd):

|                                                    | 2004          | 2003          |
|----------------------------------------------------|---------------|---------------|
| Long-term assets held for sale:                    |               |               |
| Long-term investments                              | 339           | 3 480         |
| Property, plant and equipment                      | 26 762        | 64 504        |
| Other assets                                       | 5 482         | 5 927         |
| Less: long-term assets of business sold            | (5 627)       |               |
|                                                    | <u>26 956</u> | <u>73 911</u> |
| Current liabilities of businesses held for sale:   |               |               |
| Bank loans                                         | 64            | 2 493         |
| Accounts payable and accrued liabilities           | 20 563        | 33 398        |
| Current portion of long-term debt                  | 3 608         | 16 754        |
| Long-term liabilities of business sold             | 2 369         |               |
|                                                    | <u>26 604</u> | <u>52 645</u> |
| Long-term liabilities of businesses held for sale: |               |               |
| Long-term debt (Note 13a))                         | 16 887        | 20 441        |
| Less: long-term liabilities of business sold       | (2 369)       |               |
|                                                    | <u>14 518</u> | <u>20 441</u> |

**9. LONG-TERM INVESTMENTS**

|                                                                        | 2004           |                 | 2003           |                 |
|------------------------------------------------------------------------|----------------|-----------------|----------------|-----------------|
|                                                                        | Book<br>value  | Market<br>value | Book<br>value  | Market<br>value |
| Entities subject to significant influence,<br>using the equity method: |                |                 |                |                 |
| Domtar Inc. (Note 9 a))                                                |                |                 | 171 833        | 295 267         |
| Warnex Inc.                                                            | 7 408          | 10 254          | 8 373          | 12 491          |
| Sequoia Minerals Inc.                                                  |                |                 | 6 538          | 9 543           |
| Andromed Inc.                                                          | 691            | 1 266           | 1 317          | 2 279           |
| Private companies                                                      | <u>167 042</u> |                 | <u>212 146</u> |                 |
|                                                                        | <u>175 141</u> |                 | <u>400 207</u> |                 |
| Venture capital, at fair value (Note 9 b))                             | <u>113 957</u> |                 | <u>134 813</u> |                 |
| Amounts carried forward                                                | <u>289 098</u> |                 | <u>535 020</u> |                 |

## SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2004

(in thousands of dollars)

**9. LONG-TERM INVESTMENTS (cont'd)**

|                                 | 2004          |                 | 2003          |                 |
|---------------------------------|---------------|-----------------|---------------|-----------------|
|                                 | Book<br>value | Market<br>value | Book<br>value | Market<br>value |
| Amounts brought forward         | 289 098       |                 | 535 020       |                 |
| Investments, at cost:           |               |                 |               |                 |
| Domtar Inc. (Note 9 a))         | 178 774       | 263 469         |               |                 |
| Saputo Inc. (Note 6)            |               |                 | 99 995        | 160 693         |
| AEterna Zentaris Inc.           |               |                 |               |                 |
| Shares                          | 40 000        | 40 000          | 40 000        | 22 933          |
| Term loan, 12%                  | 14 004        |                 | 12 500        |                 |
| Rona Inc.                       | 33 531        | 147 080         | 33 531        | 112 437         |
| SkyePharma PLC                  | 4 713         | 5 395           | 10 094        | 12 526          |
| Theratechnologies Inc. (Note 5) | 4 358         | 4 947           | 13 820        | 8 716           |
| Tembec Inc.                     |               |                 |               |                 |
| Debentures, 7% repaid in 2004   |               |                 | 10 000        |                 |
| Preferred shares                | 9 104         |                 | 9 104         |                 |
| Scansoft Inc. (Notes 9 c))      | 5 572         | 3 912           | 5 572         | 5 291           |
| Loans and debentures:           |               |                 |               |                 |
| Interest bearing                | 17 663        |                 | 33 062        |                 |
| Non-interest bearing            | 6 801         |                 | 2 607         |                 |
| Other (Note 9 d))               | 23 262        |                 | 20 574        |                 |
|                                 | 337 782       |                 | 290 859       |                 |
|                                 | 626 880       |                 | 825 879       |                 |
| Less current portion            | 40 953        |                 | 13 922        |                 |
|                                 | 585 927       |                 | 811 957       |                 |

- a) As at December 31, 2003, the investment in Domtar was recorded as an entity subject to significant influence. At the end of March 2004, the Company cancelled the shareholder's agreement binding the Company to the Caisse de dépôt et placement du Québec with regard to the holding of shares by both institutions in Domtar. This investment is now recorded as an investment, at cost.
- b) As at December 31, 2004, the cost of venture capital investments was \$355 608 000 (December 31, 2003 – \$354 814 000).
- c) The Company recorded its investment at an amount above its quoted market price, because management believes that this impairment in value is not permanent, mainly because of the substantial fluctuations in its respective area of activity.
- d) The fair value of the other investments recorded at cost approximates the carrying amount.

## SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2004

(in thousands of dollars)

**10. PROPERTY, PLANT AND EQUIPMENT**

|                              | 2004      |                             |           | 2003      |
|------------------------------|-----------|-----------------------------|-----------|-----------|
|                              | Cost      | Accumulated<br>amortization | Net       | Net       |
| Chemicals and Petrochemicals | 797 930   | 248 020                     | 549 910   | 559 137   |
| Mines, Metals and Industrial | 460 925   | 82 095                      | 378 830   | 297 837   |
| Forest Products and Energy   | 355 787   | 33 282                      | 322 505   | 402 388   |
| Healthcare                   |           |                             |           | 11 021    |
| Agri-food                    | 24 515    | 10 545                      | 13 970    | 23 702    |
| Segment total                | 1 639 157 | 373 942                     | 1 265 215 | 1 294 085 |
| Corporate activities         | 17 350    | 13 042                      | 4 308     | 5 434     |
|                              | 1 656 507 | 386 984                     | 1 269 523 | 1 299 519 |

Property, plant and equipment includes assets under construction or development amounting to \$338 300 000 as at December 31, 2004 (2003 – \$300 400 000), which are not amortized.

**11. GOODWILL**

For the year ended December 31, 2004, the carrying value of goodwill by segment fluctuated as follows:

|                              | Balance<br>as at<br>December 31,<br>2003 | Business<br>acquisitions<br>(disposals) | Goodwill<br>impairment | Balance<br>as at<br>December 31,<br>2004 |
|------------------------------|------------------------------------------|-----------------------------------------|------------------------|------------------------------------------|
| Mines, Metals and Industrial | 926                                      |                                         | (926)                  |                                          |
| Forest Products and Energy   | 1 729                                    | (810)                                   |                        | 919                                      |
|                              | 2 655                                    | (810)                                   | (926)                  | 919                                      |



**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousands of dollars)

**12. OTHER ASSETS**

|                                   | 2004           |                             |                | 2003           |
|-----------------------------------|----------------|-----------------------------|----------------|----------------|
|                                   | Cost           | Accumulated<br>amortization | Net            | Net            |
| Operating licences                | 49 705         | 6 518                       | 43 187         | 45 322         |
| Mining properties                 | 26 283         |                             | 26 283         | 28 343         |
| Start-up costs                    | 19 651         | 3 551                       | 16 100         | 16 124         |
| Electricity purchase agreement    | 12 192         | 2 032                       | 10 160         | 10 973         |
| Accrued benefit asset (Note 22)   | 6 463          |                             | 6 463          | 6 857          |
| Land held for development project | 5 624          |                             | 5 624          | 5 624          |
| Deposit on business acquisition   |                |                             |                | 2 000          |
| Other                             | 12 351         | 3 137                       | 9 214          | 11 343         |
|                                   | <u>132 269</u> | <u>15 238</u>               | <u>117 031</u> | <u>126 586</u> |

Amortization for the year ended December 31, 2004 was \$7 033 000 (2003 – \$4 611 000).

**13. LONG-TERM DEBT**

|                                                                                                                                                                                            | 2004           | 2003           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Secured (Note 13 a):                                                                                                                                                                       |                |                |
| 7.27% note, repayable in semi-annual principal instalments, maturing in 2017                                                                                                               | 125 008        | 134 836        |
| Construction loan at a floating rate based on the banker's acceptance rate, the prime rate, the US base rate or LIBOR, maturing in 2005 (Note 13 d))                                       | 53 802         | 45 271         |
| Revolving bank loan at LIBOR and at the bankers' acceptance rate plus 3% and at the prime rate plus 2%, maturing in 2006                                                                   | 42 715         | 35 360         |
| Construction loan convertible into a term loan at the Canadian average 4-year rate on swaps plus 4.75%, repayable as of 2006 in variable quarterly payments and maturing in 2012           | 15 000         |                |
| Term loan, at a rate of 8.189%, maturing in 2005                                                                                                                                           | 14 100         | 14 374         |
| Revolving bank loan at a variable rate, maturing in 2007                                                                                                                                   | 13 400         | 6 400          |
| Revolving bank loan at a floating rate based on the banker's acceptance rate, the prime rate, the US base rate or LIBOR, maturing in 2005                                                  | 10 356         | 4 600          |
| Bank loan at the prime rate or the US base rate plus 0.5% to 0.875% or the bankers' acceptance rate or LIBOR plus 1.5% to 1.875%, repayable in two annual instalments and maturing in 2006 | 7 372          | 9 499          |
| Subordinated debenture of a face value of \$12 500 000, interest free, maturing in 2011                                                                                                    | 6 831          | 7 709          |
| Term bank loan at the average rate of 2.52%, repayable in quarterly instalments, maturing in 2006                                                                                          | 6 773          | 13 215         |
| Bank loan at prime rate plus 1%, repayable in varying instalments, maturing in 2005                                                                                                        | 6 000          | 6 375          |
| Bank loan at an effective rate of 6.75%, repayable in variable instalments, maturing in 2006                                                                                               | 5 770          | 7 375          |
| Amount due to Investissement Québec at prime rate plus 1.5% and maturing in 2005 (Note 13 d))                                                                                              | 72 578         | 61 471         |
| Loans of companies disposed of in 2004                                                                                                                                                     |                | 58 477         |
| Other                                                                                                                                                                                      | <u>12 704</u>  | <u>19 800</u>  |
| Amounts carried forward                                                                                                                                                                    | <u>392 409</u> | <u>424 762</u> |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousands of dollars)

**13. LONG-TERM DEBT (cont'd)**

|                                                        | 2004    | 2003    |
|--------------------------------------------------------|---------|---------|
| Amounts brought forward                                | 392 409 | 424 762 |
| Unsecured:                                             |         |         |
| Amount due to Investissement Québec:                   |         |         |
| Interest-free, repayable at the latest in 2033         | 34 658  | 34 658  |
| Interest-free, repayable subject to certain conditions | 14 750  | 14 250  |
| 5% loan due to a partner, maturing in 2006             | 5 549   | 5 304   |
| Loans repaid in 2004                                   |         | 168 034 |
| Loans of companies disposal of in 2004                 |         | 20 643  |
| Other                                                  | 21 483  | 22 671  |
|                                                        | 76 440  | 265 560 |
| Total secured and unsecured long-term debt             | 468 849 | 690 322 |
| Less current portion                                   | 170 202 | 123 650 |
|                                                        | 298 647 | 566 672 |

a) Loans of certain of the Company's joint ventures and subsidiaries are secured by various types of securities on accounts receivable, inventories and other tangible and intangible assets and hypothecs on all of the property of which the book value totalled \$1 122 000 000 as at December 31, 2004.

b) The long-term debt denominated in U.S. dollars amounts to US\$147 645 000 as at December 31, 2004 (2003 – US\$278 003 000).

c) Principal repayments due within each of the next five years are as follows:

|      |         |
|------|---------|
| 2005 | 170 202 |
| 2006 | 72 012  |
| 2007 | 28 935  |
| 2008 | 26 466  |
| 2009 | 18 095  |

d) The long-term debt of a joint venture was entirely classified as short term since the latter was in default as at December 31, 2004, with respect to its compliance with certain restrictive clauses of its borrowing contracts. The joint venture is finalizing a new loan agreement with its lender that it expects to sign shortly.

e) The carrying amount of the long-term debt bearing interest approximates its fair value. The fair value of long-term interest-free loans of a book value of \$59 680 000 could not be estimated because there were no comparable items.

**14. OTHER LONG-TERM LIABILITIES**

|                                      | 2004   | 2003   |
|--------------------------------------|--------|--------|
| Accrued benefit obligation (Note 22) | 22 594 | 22 141 |
| Asset retirement obligation          | 2 629  |        |
| Other                                | 5 545  | 6 189  |
|                                      | 30 768 | 28 330 |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousand of dollars)

**15. CAPITAL STOCK**

 Authorized – par value of \$10 per share  
 292 500 000 common shares

|                           | 2004      | 2003      |
|---------------------------|-----------|-----------|
| Issued                    |           |           |
| 217 334 018 common shares | 2 173 340 | 2 173 340 |

The Company can request the shareholder to subscribe and pay for an additional 75 165 982 common shares representing an amount of \$751 660 000.

**16. SUPPLEMENTARY CASH FLOW INFORMATION**

a) The changes in non-cash operating working capital balances are as follows:

|                                          | 2004     | 2003     |
|------------------------------------------|----------|----------|
| (Increase) decrease in:                  |          |          |
| Accounts receivable                      | (40 994) | (17 960) |
| Inventories                              | (25 130) | (11 223) |
| Prepaid expenses                         | (5 241)  | 778      |
| Increase (decrease) in:                  |          |          |
| Accounts payable and accrued liabilities | (7 536)  | 31 955   |
|                                          | (78 901) | 3 550    |

- b) In addition to the acquisitions of property, plant and equipment, and other investing activities disclosed in the consolidated statement of cash flows, the Company acquired, during the year, property, plant and equipment and other assets amounting to \$29 419 000 of which \$27 752 000 is financed by accounts payable and \$1 667 000 by other long-term debt (\$75 533 000 was financed by accounts payable and long-term debt in 2003).
- c) During the year, the Company sold its investment in Infectio Diagnostic for a total consideration of \$15 202 000 of shares of GeneOhm Sciences. In addition, the balance of an investment in a company subject to significant influence was converted into common shares of a public company, Campbell Resources. These transactions generated a gain on disposal of investments of \$3 945 000.

**17. ACQUISITIONS OF BUSINESSES AND LONG-TERM INVESTMENTS**

Acquisitions of businesses and long-term investments are detailed below:

|                                          | 2004   | 2003   |
|------------------------------------------|--------|--------|
| Venture capital investments:             |        |        |
| GTI V (NR), Limited Partnership          | 3 000  |        |
| Medicago Inc.                            | 2 500  | 3 500  |
| Media5 Corporation                       | 1 000  | 8 500  |
| Sodémex, Limited Partnership             | 2 560  | 2 257  |
| Fonds Entrepia Nord, Limited Partnership | 2 206  | 1 530  |
| Infectio Diagnostic Inc. (Note 16c))     |        | 6 175  |
| Other                                    | 2 291  | 9 734  |
| Amounts carried forward                  | 13 557 | 31 696 |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousand of dollars)

**17. ACQUISITIONS OF BUSINESSES AND LONG-TERM INVESTMENTS (cont'd)**

|                                            | 2004          | 2003           |
|--------------------------------------------|---------------|----------------|
| Amounts brought forward                    | 13 557        | 31 696         |
| Entities subject to significant influence: |               |                |
| Circuit Foil Luxembourg, SARL              |               | 32 124         |
| Olymel, Limited Partnership                |               | 25 008         |
| Other                                      | 5 670         | 14 730         |
| Investments, at cost:                      |               |                |
| AEterna Zentaris Inc.                      |               | 12 500         |
| Polycor Inc.                               |               | 8 000          |
| Industries Spectra Premium Inc.            |               | 7 500          |
| Other                                      | 4 128         | 9 128          |
| Businesses                                 |               | 1 095          |
|                                            | <u>23 355</u> | <u>141 781</u> |

**18. DISPOSAL OF BUSINESSES AND LONG-TERM INVESTMENTS**

a) The proceeds on disposal of businesses and long-term investments are as follows:

|                                           | 2004           | 2003          |
|-------------------------------------------|----------------|---------------|
| Businesses (Note 18b))                    | 120 507        | 30 785        |
| Entities subject to significant influence | 22 341         | 235           |
| Venture capital investments               | 11 120         | 9 422         |
| Investments, at cost                      | <u>189 931</u> | <u>18 512</u> |
|                                           | <u>343 899</u> | <u>58 954</u> |

b) In 2004, the Company disposed of its investments in some businesses. The net assets disposed of, excluding cash and cash equivalents, are as follows:

|                                                                                           | 2003           |
|-------------------------------------------------------------------------------------------|----------------|
| Current assets                                                                            | 22 375         |
| Long-term investments                                                                     | 3 736          |
| Property, plant and equipment                                                             | 94 242         |
| Goodwill                                                                                  | 810            |
| Other assets                                                                              | <u>408</u>     |
|                                                                                           | <u>121 571</u> |
| Current liabilities                                                                       | 15 715         |
| Long-term debt                                                                            | 42 872         |
| Other long-term liabilities                                                               | <u>182</u>     |
|                                                                                           | <u>58 769</u>  |
| Net assets disposal of                                                                    | 62 802         |
| Net gain on disposal                                                                      | <u>52 153</u>  |
| Proceeds on disposal, net of disposed cash and cash equivalents (Amounts carried forward) | <u>114 955</u> |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
year ended December 31, 2004  
(in thousand of dollars)

**18. DISPOSAL OF BUSINESSES AND LONG-TERM INVESTMENTS (cont'd)**

- b) In 2004, the Company disposed of its investments in some businesses. The net assets disposed of, excluding cash and cash equivalents, are as follows: (cont'd)

|                                                             | 2003           |
|-------------------------------------------------------------|----------------|
| Amounts brought forward                                     | 114 955        |
| Balance of selling price as at December 31, 2003 received   | 3 418          |
| Balance of selling price as at December 31, 2004 receivable | (219)          |
| Transaction fees payable as at December 31, 2004            | 2 353          |
| Consideration received                                      | <u>120 507</u> |

**19. FINANCIAL INSTRUMENTS**

The Company uses the financial instruments described below:

**a) Foreign currency**

To reduce the impact of fluctuations in exchange rates on revenue and purchases of inventories, property, plant and equipment, and repayment of long-term debt denominated in foreign currency, the Company uses a combination of forward exchange contracts, options and currency swaps. As at December 31, 2004, the amounts committed to these financial instruments in U.S. dollars and the euro amounted to US\$56 750 000 and €650 000, respectively. These instruments, maturing from January 2005 to December 2005, had unrealized gains totalling \$1 413 126 as at December 31, 2004.

**b) Interest rate risk**

The Company's exposure to interest rate risk is related to its bank loans for which interest is generally based on variable interest rates.

**c) Credit risk**

The above-mentioned contracts are offset by changes in the value of the underlying items being hedged. The Company may be exposed to losses if the counterparties to these contracts fail to perform. On December 31, 2004, the Company estimated that the risk of such non-performance was remote.

The Company invests its temporary investments and its short-term liquid investments according to established policies in securities of major financial institutions with a good credit rating. The Company is subject to economic conditions affecting the industries in which it operates. The Company continually monitors its clients' credit and establishes a provision for doubtful accounts based on the credit risk determined for each client. Management believes that there was no significant credit risk as at December 31, 2004.

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousand of dollars)

**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:

|                                      | <u>2004</u> | <u>2003</u> |
|--------------------------------------|-------------|-------------|
| Consolidated statement of operations |             |             |
| Revenue                              | 1 133 626   | 786 708     |
| Expenses                             | (1 160 919) | (937 851)   |
| Net loss                             | (27 293)    | (151 143)   |
| Consolidated balance sheet           |             |             |
| Current assets                       | 381 213     | 328 840     |
| Long-term assets                     | 979 751     | 1 201 094   |
| Current liabilities                  | 211 088     | 287 480     |
| Long-term liabilities                | 254 810     | 315 670     |
| Consolidated statement of cash flows |             |             |
| Operating activities                 | (24 181)    | (30 062)    |
| Investing activities                 | (106 141)   | (304 156)   |
| Financing activities                 | 35 503      | 140 949     |

**21. COMMITMENTS AND GUARANTEES****a) Long-term leases and commitments**

The Company is committed under long-term leases to make minimum payments totalling \$102 412 000 as follows:

|                     |        |
|---------------------|--------|
| 2005                | 14 705 |
| 2006                | 12 947 |
| 2007                | 10 751 |
| 2008                | 9 844  |
| 2009                | 8 870  |
| 2010 and thereafter | 45 295 |

The Company is committed to acquire plant, property and equipment and to purchase services and raw materials aggregating \$196 600 000 over the next few years. The Company is also committed to repay a financial contribution totalling \$5 000 000 in the event that certain conditions are not met. However, the Company believes that it will be able to comply with the conditions stipulated and will not have to repay the financial contribution. The Company is also committed to subscriptions for long-term investments, which amounted to \$18 500 000 as at December 31, 2004, in addition to those recorded as current and long-term liabilities on the Company's balance sheet.

**b) Credit facility**

At December 31, 2004, the Company has available committed lines of credit totalling \$429 199 000, which can be used for short-term or long-term financing and bear interest at prime rate or at the money market rate.

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2004

(in thousand of dollars)

**21. COMMITMENTS AND GUARANTEES (cont'd)**
**c) Guarantees**

In the normal course of business, the Company entered into certain agreements which include elements meeting the definition of a "Guarantee" under AcG14. The main guarantees provided are as follows:

## i) Supply contract

The Company offered a guarantee of a maximum amount of \$25 000 000 with regard to obligations under a client's 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 for 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.

**22. EMPLOYEE FUTURE BENEFITS**

The Company offers various contributory and non-contributory defined benefit pension plans to its employees which are based on years of service and average final earnings of these employees. In addition, the Company offers employees other future benefits consisting mainly of group insurance plans which 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 and other plans were conducted in 2003 and the next ones are scheduled for 2006.

- a) The following table presents information relating to the various plans of the Company, as at December 31, 2004, as established by independent actuaries:

|                             | 2004          |             |          | 2003     |
|-----------------------------|---------------|-------------|----------|----------|
|                             | Pension plans | Other plans | Total    | Total    |
| Accrued benefit obligations | 115 733       | 17 263      | 132 996  | 127 071  |
| Plan assets at fair value   | 88 269        |             | 88 269   | 87 113   |
| Deficit, end of year        | (27 464)      | (17 263)    | (44 727) | (39 958) |
| Accrued benefit asset       | 6 463         |             | 6 463    | 6 857    |
| Accrued benefit liability   | (9 214)       | (13 380)    | (22 594) | (22 141) |
| Net recorded amount         | (2 751)       | (13 380)    | (16 131) | (15 284) |
| Expense for the year        | 6 704         | 1 925       | 8 629    | 8 571    |
| Employer contributions      | 6 086         | 213         | 6 299    | 5 777    |
| Employee contributions      | 2 135         |             | 2 135    | 2 022    |
| Benefits paid               | 5 596         | 397         | 5 993    | 5 659    |

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)  
year ended December 31, 2004  
(in thousand of dollars)

**22. EMPLOYEE FUTURE BENEFITS (cont'd)**

b) The weighted average actuarial assumptions used by the Company as at December 31, are as follows:

|                                                  | 2004                  |                     | 2003                  |                     |
|--------------------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
|                                                  | Pension<br>plans<br>% | Other<br>plans<br>% | Pension<br>plans<br>% | Other<br>plans<br>% |
| Accrued benefit obligations<br>as at December 31 |                       |                     |                       |                     |
| Discount rate                                    | 6.15                  | 6.00                | 6.30                  | 6.20                |
| Rate of compensation increase                    | 3.60                  | 3.80                | 3.70                  | 4.00                |
| Benefit costs for years<br>ended December 31     |                       |                     |                       |                     |
| Discount rate                                    | 6.20                  | 6.10                | 6.30                  | 6.30                |
| Long-term rate of return on assets               | 7.20                  |                     | 7.25                  |                     |
| Rate of compensation increase                    | 3.80                  | 3.80                | 3.70                  | 3.70                |

c) The assets of the pension plans are invested as follows:

|        | 2004<br>%     | 2003<br>%     |
|--------|---------------|---------------|
| Shares | 54.00         | 53.20         |
| Bonds  | 39.10         | 40.00         |
| Other  | 6.90          | 6.80          |
|        | <u>100.00</u> | <u>100.00</u> |

For measurement purposes, an annual weighted average rate of increase in the cost of covered health care benefits of 10.0% was assumed for 2005 (2004 – 9.85%). The rate was assumed to decrease gradually to reach approximately 5% in 2009 and remain at that level thereafter.

**23. COMPARATIVE FIGURES**

Certain comparative figures for the previous year have been reclassified to conform to the financial statement presentation adopted in the current year.



**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**MANAGEMENT REPORT

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To the shareholder of  
Société générale de financement du Québec

In the discharge of its duties, the Board of Directors of Société générale de financement du Québec has delegated to its officers the preparation of its consolidated financial statements.

The consolidated financial statements for 2004 have been audited by an independent firm of auditors, KPMG LLP, before their presentation to the Board of Directors, which has approved them upon recommendation of the duly constituted and appointed Audit Committee.

Management believes that these statements have been prepared in accordance with generally accepted accounting principles. They take into consideration, within reasonable limits, all significant accounting policies referred to in the notes to the consolidated financial statements included herein.

Pierre Shedleur  
Chairman of the Board,  
President and General Manager

Jean-Jacques Carrier  
Vice-President and  
Chief Financial Officer

Montréal, Québec  
March 31, 2005

**SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**

## AUDITOR'S REPORT

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To the shareholder of  
Société générale de financement du Québec

We have audited the consolidated balance sheet of Société générale de financement du Québec as at December 31, 2004 and the consolidated statements of operations, (deficit) retained earnings 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 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, 2004 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 Act respecting the Auditor General (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, with the exception of the changes in accounting policies described in Note 1.

KPMG LLP.  
Chartered Accountants

Montréal, Québec  
March 31, 2005

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**  
(R.S.Q., c. S-17.1)

**INCOME AND RETAINED EARNINGS**  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                     | <u>2005</u>          | <u>2004</u>          |
|-----------------------------------------------------|----------------------|----------------------|
| <b>REVENUE</b>                                      |                      |                      |
| Rentals                                             |                      |                      |
| Government departments and agencies customers       | 497 049              | 486 263              |
| Other customers                                     | 19 034               | 20 372               |
| Parking lots                                        | 27 303               | 26 226               |
| Leasehold improvements and other services           |                      |                      |
| offered to customers                                | 116 135              | 90 271               |
| Gain on transfer of immovable                       | 1 937                | 784                  |
| Other                                               | <u>1 840</u>         | <u>705</u>           |
|                                                     | <u>663 298</u>       | <u>624 621</u>       |
| <b>EXPENDITURE</b>                                  |                      |                      |
| Rent and business taxes on leased property          | 202 424              | 195 900              |
| Operating expenses for immovable (Note 14)          | 145 062              | 147 079              |
| Financial expenses – net (Note 15)                  | 68 639               | 66 603               |
| Real estate and business taxes on immovable         | 62 698               | 64 509               |
| Leasehold improvements and other services           |                      |                      |
| offered to customers                                | 112 679              | 85 540               |
| Depreciation (Note 16)                              | 32 943               | 29 994               |
| General and administrative expenses – net (Note 17) | 9 483                | 9 506                |
| Fees related to projects that have been dropped     |                      | 3 574                |
| Settlement of construction-related lawsuits         | 5 153                |                      |
| Restructuring costs                                 | <u>3 377</u>         |                      |
|                                                     | <u>642 458</u>       | <u>602 705</u>       |
| <b>NET INCOME</b>                                   | 20 840               | 21 916               |
| <b>RETAINED EARNINGS, BEGINNING OF YEAR</b>         | <u>73 362</u>        | <u>51 446</u>        |
| <b>RETAINED EARNINGS, END OF YEAR</b>               | <u><u>94 202</u></u> | <u><u>73 362</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**
**BALANCE SHEET**  
 as at March 31, 2005  
 (in thousands of dollars)

|                                            | <u>2005</u>             | <u>2004</u>             |
|--------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                              |                         |                         |
| Immovable (Notes 3 and 4)                  | 1 415 302               | 1 383 507               |
| Receivables linked to development (Note 5) | 156 699                 | 152 304                 |
| Work in progress (Note 4)                  | 30 767                  | 50 425                  |
| Long-term investment (Note 6)              | 14 058                  | 13 985                  |
| Equipment (Note 7)                         | 9 013                   | 8 493                   |
| Accounts receivable (Note 8)               | 66 180                  | 31 631                  |
| Other assets – net (Note 9)                | <u>25 623</u>           | <u>18 835</u>           |
|                                            | <u><u>1 717 642</u></u> | <u><u>1 659 180</u></u> |
| <b>LIABILITIES</b>                         |                         |                         |
| Long-term debt (Note 10)                   | 1 107 510               | 982 962                 |
| Short-term borrowings (Note 11)            | 286 416                 | 383 127                 |
| Accounts payable and accruals (Note 12)    | 132 649                 | 129 982                 |
| Outstanding cheques less cash on hand      | <u>9 198</u>            | <u>2 080</u>            |
|                                            | <u><u>1 535 773</u></u> | <u><u>1 498 151</u></u> |
| <b>SHAREHOLDER'S EQUITY</b>                |                         |                         |
| Capital stock (Note 13)                    | 80 001                  | 80 001                  |
| Gouvernement du Québec contribution        | 7 666                   | 7 666                   |
| Retained earnings                          | <u>94 202</u>           | <u>73 362</u>           |
|                                            | <u><u>181 869</u></u>   | <u><u>161 029</u></u>   |
|                                            | <u><u>1 717 642</u></u> | <u><u>1 659 180</u></u> |
| <b>COMMITMENTS</b> (Note 21)               |                         |                         |
| <b>CONTINGENCIES</b> (Note 22)             |                         |                         |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 Marc-A. Fortier, Adm. A., President of the Board of Directors and  
 President and Chief Executive Officer  
 Sebastiano Faustini, CA, Administrator

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****CASH FLOWS**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                               | <u>2005</u>           | <u>2004</u>           |
|---------------------------------------------------------------|-----------------------|-----------------------|
| <b>OPERATING ACTIVITIES</b>                                   |                       |                       |
| Accounts receivable– clients                                  | 583 099               | 569 078               |
| Accounts payable– suppliers and staff members                 | (512 983)             | (530 318)             |
| Interest earned                                               | 11 431                | 11 775                |
| Interest paid                                                 | <u>(81 195)</u>       | <u>(74 795)</u>       |
| Cash flows related to operating activities                    | <u>352</u>            | <u>(24 260)</u>       |
| <b>INVESTMENT ACTIVITIES</b>                                  |                       |                       |
| Acquisitions of immovable                                     | (66 217)              | (91 161)              |
| Proceeds from the sale of the Palais des Congrès in Montréal  |                       | 1 347                 |
| Receivables linked to development                             | 39 225                | 38 414                |
| Long-term investments                                         | (73)                  | (13)                  |
| Acquisitions of equipment                                     | (3 342)               | (1 557)               |
| Acquisitions of other net assets                              | (9 117)               | (3 651)               |
| Proceeds from disposal of immovables                          | <u>4 016</u>          | <u>2 178</u>          |
| Cash flows related to investment activities                   | <u>(35 508)</u>       | <u>(54 443)</u>       |
| <b>FINANCING ACTIVITIES</b>                                   |                       |                       |
| Proceeds from long-term borrowings                            | 125 000               |                       |
| Proceeds from short-term net borrowings                       | (96 711)              | 143 863               |
| Reimbursement of debt under capital lease contracts           | (443)                 | (394)                 |
| Reimbursement of long-term debt                               | <u>192</u>            | <u>(60 847)</u>       |
| Cash flows related to financing activities                    | <u>28 038</u>         | <u>82 622</u>         |
| <b>(DECREASE) INCREASE IN CASH<br/>AND CASH EQUIVALENTS *</b> | <u>(7 118)</u>        | <u>3 919</u>          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING<br/>OF YEAR</b>       | <u>(2 080)</u>        | <u>(5 999)</u>        |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR</b>             | <u><u>(9 198)</u></u> | <u><u>(2 080)</u></u> |

\* Cash and cash equivalents include outstanding cheques less cash on hand.

The notes are an integral part of these financial statements.

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

as at March 31, 2005

(in thousands of dollars)

**1. CONSTITUTION AND PURPOSE**

The Société is a joint stock company established the September 25, 1984, by the Act respecting the Société immobilière du Québec (R.S.Q., c. S-17.1). Its purpose is to make buildings and property available to government departments and agencies, for a consideration, and provide them with construction, operating and management services.

The Société houses the majority of government departments and agencies, with the exception notably of the 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 Société is not subject to income tax.

**2. ACCOUNTING POLICIES**

The Société's financial statements were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amount based on best estimates and judgements.

**Assets, liabilities and results linked to parking lots**

The Société mandated a dealer to manage its parking lots. The Société'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. The cost includes all of the amounts related to the acquisition, construction, capital-lease contracts and the improvement of fixed assets.

Fixed asset amortization is calculated at the rate of 5% using the annuity method of depreciation so as to fully amortize building costs over periods ranging from 15 to 50 years.

*- Under construction*

Immovables in operation are recorded at cost. In addition to direct costs, the cost of immovables under construction includes operating expenses, property taxes, interest and the applicable 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 within a reasonable time limit.

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.

*- Intended for sale*

Immovables intended for sale are valued at the lower of amortized cost and net realizable value. No depreciation on these immovables is recorded once the Société decides to sell them.

**Long-term depreciation of assets**

Long-term assets are reviewed to determine whether their value has declined when events or changes in a situation show that the book value of an asset might not be recoverable. Depreciation is assessed by comparing the book value of an asset with the net non-capitalized cash flows envisaged for use and with its residual value. If the Société feels that the assets' value has depreciated, the amount of the depreciation is posted to charges for the fiscal year.

## SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS (cont'd)

as at March 31, 2005

(in thousands of dollars)

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## 2. ACCOUNTING POLICIES (cont'd)

### Work in progress

Work in progress represents construction projects and minor uncompleted development projects to be invoiced on presentation of a progress report or when work has been completed. This work is recorded at cost with the amounts invoiced having been deducted from this cost.

### Long-term investments

Share in a satellite corporation is recorded at consolidation value.

### Equipment

Equipment used for administrative purposes is recorded at cost and amortized using the straight-line method over periods ranging from 3 to 10 years.

### Other assets - net

#### - *Deferred expenses*

The other deferred expenses and income are amortized according to the straight-line method over a period of 3 to 30 years.

#### - *Computer system development*

The cost of developing computer systems is amortized according to the straight-line method over a period of 5 years.

#### - *Premium, discount and long-term debt issuing costs*

The premium, discount and long-term debt issuing costs are amortized over the duration of the debt using the straight-line method.

### Recording proceeds

#### - *Space rental*

The proceeds from space rental are invoiced according to foreseeable costs. These costs are divided among the government's departments and agencies that are the Société's clients based on the terms and conditions resulting from the regulation respecting rate-setting of the Société's services. Occupancy agreements are signed by the Société and the Departments and agencies of the Gouvernement du Québec subject to doing business with the Société.

#### - *Development and other services offered to clients*

The proceeds are recorded 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 effective interest method.

### Derivative financial instruments

The Société uses swap agreements in its interest rate management program. Swap agreements give rise to periodic interest payment exchange with exchange of the notion on which the payments are based. These payments are recorded as adjustment of debt interest on the borrowing instrument covered. The corresponding amount payable to contras or receivable from contras is posted to adjustment of accrued interest.

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**2. ACCOUNTING POLICIES (cont'd)****Pension plans**

Defined-contribution plan accounting is applied to interenterprise government defined-benefit plans given that the Société lacks sufficient information to apply defined-benefit plan accounting.

**3. IMMOVABLES**

|                          | Land    | Buildings | Immovables<br>under<br>capital<br>leases | Total<br>2005 | Total<br>2004 |
|--------------------------|---------|-----------|------------------------------------------|---------------|---------------|
| In operation             | 117 791 | 1 516 079 | 56 041                                   | 1 689 911     | 1 596 889     |
| Under construction       | 5 768   | 26 270    |                                          | 32 038        | 63 535        |
| Intended for sale        | 22      | 256       |                                          | 278           | 1 926         |
|                          | 123 581 | 1 542 605 | 56 041                                   | 1 722 227     | 1 662 350     |
| Accumulated depreciation |         | 297 603   | 9 322                                    | 306 925       | 278 843       |
|                          | 123 581 | 1 245 002 | 46 719                                   | 1 415 302     | 1 383 507     |

**4. EXPENSES CAPITALIZED TO IMMOVABLES AND WORK IN PROGRESS**

|                                                         | 2005  | 2004   |
|---------------------------------------------------------|-------|--------|
| During the year, the following costs were capitalized:  |       |        |
| Wages and general and administrative expenses (Note 17) | 6 489 | 11 292 |
| Interest (Note 15)                                      | 1 796 | 2 542  |
| Operating expenses, property taxes less rental income   | 242   | 471    |
|                                                         | 8 527 | 14 305 |

**5. ACCOUNTS RECEIVABLE LINKED TO DEVELOPMENTS**

Accounts receivable from government departments and agencies, repayable in monthly instalments including capital and interest at rates varying from 4.69% to 10.64%, due between 2005 and 2019.

The estimated amount of cash receipts break down as follows:

Exercise

|              |         |
|--------------|---------|
| 2006         | 27 646  |
| 2007         | 24 627  |
| 2008         | 20 852  |
| 2009         | 17 725  |
| 2010         | 28 405  |
| 2011 to 2019 | 37 444  |
|              | 156 699 |



## SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**6. LONG-TERM INVESTMENTS**

|                                                                                                                                                                                                          | 2005          | 2004          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| General partnership                                                                                                                                                                                      |               |               |
| Cost                                                                                                                                                                                                     | 2 300         | 2 300         |
| Share in results since its creation                                                                                                                                                                      | 2 239         | 1 870         |
| Term loan, guaranteed by a first real estate mortgage,<br>pari passu, at the rate of 6.51% cashable in monthly<br>payments of \$76 390 in principal and interest,<br>renewable in 2007, maturing in 2022 | 9 519         | 9 815         |
|                                                                                                                                                                                                          | <u>14 058</u> | <u>13 985</u> |

The estimated amount of capital encashments on the loan breaks down as follows:

Exercise

|              |              |
|--------------|--------------|
| 2006         | 314          |
| 2007         | 335          |
| 2008         | 357          |
| 2009         | 381          |
| 2010         | 407          |
| 2011 to 2022 | <u>7 725</u> |
|              | <u>9 519</u> |

**7. EQUIPMENT**

|                          | 2005         | 2004         |
|--------------------------|--------------|--------------|
| Equipment                | 28 074       | 24 973       |
| Accumulated depreciation | 19 061       | 16 480       |
|                          | <u>9 013</u> | <u>8 493</u> |

**8. ACCOUNTS RECEIVABLE**

|                 | 2005          | 2004          |
|-----------------|---------------|---------------|
| Related parties | 62 109        | 24 859        |
| Other           | 4 071         | 6 772         |
|                 | <u>66 180</u> | <u>31 631</u> |

**9. OTHER ASSETS - NET**

|                                                                    | 2005          | 2004          |
|--------------------------------------------------------------------|---------------|---------------|
| Deferred expenses at amortized cost                                | 20 573        | 14 158        |
| Computer systems development, at amortized cost                    | 1 042         | 1 186         |
| Discount and issue expenses on long-term debt<br>at amortized cost | 1 492         | 1 005         |
| Prepaid expenses                                                   | 2 516         | 2 486         |
|                                                                    | <u>25 623</u> | <u>18 835</u> |

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**10. LONG-TERM DEBT**

|                                                                                                                                          | 2005             | 2004           |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------|
| Bonds at fixed effective rates of 9.36% to 10.78%, guaranteed by the Gouvernement du Québec, maturing between 2006 and 2014 <sup>a</sup> | 219 673          | 219 673        |
| Notes owed to the Financing Fund of the Gouvernement du Québec                                                                           |                  |                |
| Fixed effective rates of 4.73% to 6.56%, maturing between 2005 and 2032                                                                  | 712 458          | 587 458        |
| Effective rate of bank acceptances plus 0.26% , maturing in 2007                                                                         | 28 920           | 28 920         |
| Borrowings linked to swap agreements at fixed effective rates of 5.74% to 6.83%, maturing between 2008 and 2030 <sup>b</sup>             | 95 300           | 95 300         |
| Commitments under capital leases <sup>c</sup>                                                                                            | 50 712           | 51 155         |
| Borrowings at varying rates and terms                                                                                                    | 447              | 456            |
|                                                                                                                                          | <u>1 107 510</u> | <u>982 962</u> |

Payments of principal for the next five fiscal years, excluding capital lease contracts, are as follows:

**Exercise**

|              |                         |
|--------------|-------------------------|
| 2006         | 154 010                 |
| 2007         | 39 177                  |
| 2008         | 13                      |
| 2009         | 20 015                  |
| 2010         | <u>28 475</u>           |
|              | 241 690                 |
| 2011 to 2015 | 584 548                 |
| 2016 to 2020 | 177                     |
| 2021 to 2025 | 1                       |
| 2026 to 2030 | 55 002                  |
| 2031 to 2032 | <u>175 380</u>          |
|              | <u><u>1 056 798</u></u> |

a On March 28 of each year from 2006 to 2012 inclusive, series E holders (\$59.4 million) may exercise this option and demand the redemption by the Société of the bonds at par value. The maximum value of bonds the Société would be required to redeem over the next seven fiscal years is \$9 million annually.

b These fixed-rate swap agreement with the Gouvernement du Québec allow variable-rate short-term borrowing to be converted to fixed rates over the long term. These short-term borrowing will be renewed upon maturity for the entire duration of the interest-rate swap agreement.

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

**10. LONG-TERM DEBT (cont'd)**

c The minimum payments for capital leases for the coming fiscal years are as follows:

**Exercise**

|                                                 |                |
|-------------------------------------------------|----------------|
| 2006                                            | 9 588          |
| 2007                                            | 9 588          |
| 2008                                            | 9 588          |
| 2009                                            | 9 588          |
| 2010                                            | 9 588          |
| Thereafter                                      | <u>181 288</u> |
| Total minimum payments payable                  | <u>229 228</u> |
| Less : Theoretical interest at a rate of 10.58% | 94 437         |
| Incidental expenses                             | <u>84 079</u>  |
|                                                 | <u>178 516</u> |
|                                                 | <u>50 712</u>  |

**11. SHORT-TERM BORROWINGS**

The short-term borrowings of the Société, of an authorized amount of \$750 million, bear interest at an average rate of 2.64% and mature between April 1 and April 29, 2005.

At March 31, 2005, the Société had contracted short-term borrowings from the Financing Fund of the Gouvernement du Québec in the amount of \$210 million (2004: \$282 million).

**12. ACCOUNTS PAYABLE AND ACCRUALS**

|                 | <u>2005</u>    | <u>2004</u>    |
|-----------------|----------------|----------------|
| Related parties | 30 918         | 22 606         |
| Other           | <u>101 731</u> | <u>107 376</u> |
|                 | <u>132 649</u> | <u>129 982</u> |

**13. CAPITAL STOCK**

Société shares are held by the Minister of Finance.

|                                                    | <u>2005</u>   | <u>2004</u>   |
|----------------------------------------------------|---------------|---------------|
| Authorized:                                        |               |               |
| 100 000 shares with a par value<br>of \$1 000 each |               |               |
| Issued and paid up:                                |               |               |
| 80 001 shares                                      | <u>80 001</u> | <u>80 001</u> |

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**14. OPERATING EXPENSES FOR IMMOVABLES**

|                                                                                                | 2005           | 2004           |
|------------------------------------------------------------------------------------------------|----------------|----------------|
| Preservation                                                                                   | 20 059         | 23 332         |
| Operating                                                                                      | 92 260         | 92 431         |
| Wages, other direct costs and general expenses<br>posted to operations of immovables (Note 17) | 32 312         | 30 971         |
| Relocation expenses                                                                            | 431            | 345            |
|                                                                                                | <u>145 062</u> | <u>147 079</u> |

**15. FINANCIAL EXPENSES - NET**

|                                                                               | 2005          | 2004          |
|-------------------------------------------------------------------------------|---------------|---------------|
| Interest expenses:                                                            |               |               |
| Long-term debt                                                                | 70 945        | 67 121        |
| Commitments under capital leases                                              | 5 388         | 5 437         |
| Amortization of the premium, discount and issue<br>expenses on long-term debt | 201           | 161           |
| Short-term borrowings                                                         | 6 625         | 9 353         |
| Other                                                                         |               | 80            |
|                                                                               | <u>83 159</u> | <u>82 152</u> |
| Interest income:                                                              |               |               |
| Receivables linked to development                                             | 9 887         | 10 508        |
| Other                                                                         | 1 648         | 1 233         |
|                                                                               | <u>11 535</u> | <u>11 741</u> |
|                                                                               | <u>71 624</u> | <u>70 411</u> |
| Less:                                                                         |               |               |
| Interest capitalized to immovables and to work<br>in progress (Note 4)        | 1 796         | 2 542         |
| Interest posted to results under general and<br>administrative expenses       | 1 189         | 1 266         |
|                                                                               | <u>2 985</u>  | <u>3 808</u>  |
|                                                                               | <u>68 639</u> | <u>66 603</u> |

**16. DEPRECIATION**

|                                                                              | 2005          | 2004          |
|------------------------------------------------------------------------------|---------------|---------------|
| Immovables                                                                   | 29 063        | 27 238        |
| Equipment and other assets - net                                             | 4 861         | 3 792         |
|                                                                              | <u>33 924</u> | <u>31 030</u> |
| Less:                                                                        |               |               |
| Amortization charged to results under general and<br>administrative expenses | 981           | 1 036         |
|                                                                              | <u>32 943</u> | <u>29 994</u> |

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**17. GENERAL AND ADMINISTRATIVE EXPENSES - NET**

|                                                                  | 2005                | 2004                |
|------------------------------------------------------------------|---------------------|---------------------|
| Salaries and fringe benefits                                     | 39 786              | 43 323              |
| Administrative offices expenses                                  | 4 486               | 4 138               |
| Other administrative expenses                                    | 4 012               | 4 308               |
|                                                                  | <u>48 284</u>       | <u>51 769</u>       |
| Less:                                                            |                     |                     |
| Expenses capitalized to immovables and work in progress (Note 4) | 6 489               | 11 292              |
| Expenditures charged to operating costs of immovables (Note 14)  | 32 312              | 30 971              |
|                                                                  | <u>38 801</u>       | <u>42 263</u>       |
|                                                                  | <u><u>9 483</u></u> | <u><u>9 506</u></u> |

**18. FINANCIAL INSTRUMENTS**
**A) Interest-rate risk**

The financial assets and liabilities that bear interest at fixed rates do not expose the Société to the risk of major rate fluctuations. For variable-rate financial instruments, every 1% fluctuation in the interest rate on their year-end balance causes net results to vary by approximately \$3 million.

**B) Credit risk**

The Société assesses the financial condition of its clients other than government departments and agencies on an ongoing basis and studies each new client's credit history. The Société establishes a provision for bad debts based on specific clients' credit risk and historical trends.

**C) Fair value**

The following methods and assumptions were used to estimate the fair value of financial instruments.

*Accounts receivable, short-term borrowings, accounts payable, accrued expenses, outstanding cheques minus cash:* the book value represents a reasonable estimate of their fair value, given that they mature in the near future.

*Long-term debt:* the fair value of the long-term debt is determined using the capitalized value of future cash flows under current financing agreements, in keeping with market interest rates available to the Société for borrowing with similar conditions and terms. The fair value of the long-term debt at March 31, 2005 was \$1 124 million versus a book value of \$1 012.2 million (\$1 010.5 million versus \$887.7 million at March 31, 2004).

*Swap agreements:* the fair value reflects the estimated amounts that the Société would have to pay to terminate unfavourable contracts at the date of the financial statement. The fair value of swap agreements at March 31, 2005 was \$112.8 million for a nominal reference amount of \$95.3 million (\$110.9 million for \$95.3 million at March 31, 2004).

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2005

(in thousands of dollars)

**18. FINANCIAL INSTRUMENTS (cont'd)****C) Fair value (cont'd)**

*Receivables linked to development:* the book value shown in the financial statements is close to the fair value of these items.

*Mortgage receivable:* the fair value of the term loan is estimated by capitalizing future cash flows at current market interest rates for similar borrowings. The fair value of the term loan at March 31, 2005 was \$9.7 million versus a book value of \$9.5 million (\$10.2 million versus \$9.8 million at March 31, 2004).

**19. FUTURE FRINGE BENEFITS****Pension plans**

The staff members of the Société participate 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 interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$1.3 million (2004: \$1.3 million). The Société's liability towards these government plans is restricted to its contributions as an employer.

**Provision for sick leave and vacation time**

|                               | 2005       |               |        | 2004   |
|-------------------------------|------------|---------------|--------|--------|
|                               | Sick leave | Vacation time | Total  | Total  |
| Opening balance               | 5 710      | 4 045         | 9 755  | 9 689  |
| Charges for the year          | 1 036      | 3 034         | 4 070  | 3 556  |
| Sub-total                     | 6 746      | 7 079         | 13 825 | 13 245 |
| Less :                        |            |               |        |        |
| Benefits paid during the year | 1 315      | 3 540         | 4 855  | 3 490  |
| Closing balance               | 5 431      | 3 539         | 8 970  | 9 755  |

The balance of this provision is included under the item "Accounts receivable and accrued expenses".

**20. 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 either joint control or significant influence by it.

The Société did not conclude business transactions with these related parties outside the normal course of its usual business activities. These transactions are not shown separately in the financial statements.

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005  
(in thousands of dollars)

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**21. COMMITMENTS****Operating leases**

The minimum payments required under operating leases are as follows:

**Exercise**

|            |                  |
|------------|------------------|
| 2006       | 175 105          |
| 2007       | 152 089          |
| 2008       | 124 901          |
| 2009       | 104 818          |
| 2010       | 80 734           |
| Thereafter | <u>365 662</u>   |
|            | <u>1 003 309</u> |

**Construction and major leasehold improvement projects**

As at March 31, 2005, external work and fees related to construction and major leasehold improvement projects were part of contractual agreements totalling \$14 million (2004: \$30 million).

**22. CONTINGENCIES****Disputes**

In the normal course of its business, the Société 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 Société's financial position and operating results.

**Environment**

The Société's activities are subject to environmental laws, regulations and adopted by government authorities. The Société deems that the environmental risks are properly managed and no actual or probable liability can be envisaged.

**23. COMPARATIVE FIGURES**

Certain 2004 figures have been reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC****MANAGEMENT'S REPORT**

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The financial statements of the Société immobilière du Québec and all of the information contained in this annual report are the responsibility of management. Approved by the board of directors, the financial statements were drawn up in accordance with the accounting principles that are generally recognized in Canada and include amounts based on best judgements and estimates. All other financial information contained in the annual report is consistent with that presented in the financial statements.

Management adopted a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly.

The Board of Directors fulfilled its responsibility with regard to the financial statements, mainly through its audit 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 Société was reported in its entirety. The committee examined the financial statements and recommended that the Board of Directors adopt them.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Marc-A. Fortier, Adm. A.  
President of Board of Directors, President and Chief Executive Officer

Jacques Vaillancourt, CA  
Vice-President, Administration and Finance

Québec, June 1, 2005

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**AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the balance sheet of the Société immobilière du Québec as at March 31, 2005 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, May 20, 2005



**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**  
(R.S.Q., c. S-17.2.0.1)

LOSS AND DEFICIT  
for the year ended March 31, 2005

|                                                | <u>2005</u>                 | <u>2004</u>                 |
|------------------------------------------------|-----------------------------|-----------------------------|
| <b>REVENUES</b>                                |                             |                             |
| Losses on disposal of investments              | \$(266 303)                 | \$(739 208)                 |
| Investment income                              | 842 365                     | 1 920 047                   |
| Interest on short-term investments             | 903 230                     | 1 543 823                   |
| Other                                          | <u>71 737</u>               | <u>150 451</u>              |
|                                                | <u>1 551 029</u>            | <u>2 875 113</u>            |
| <b>EXPENSES</b>                                |                             |                             |
| Operating expenses:                            |                             |                             |
| Salaries and benefits                          | 3 061 611                   | 3 572 832                   |
| Professional and contractual services (Note 3) | (1 301)                     | 379 658                     |
| Rent and taxes                                 | 382 503                     | 412 964                     |
| Advertising, promotion and annual report       | 62 211                      | 283 248                     |
| Telephone and courier                          | 69 677                      | 81 462                      |
| Travel and business development                | 140 519                     | 274 345                     |
| Office expenses                                | 153 542                     | 168 231                     |
| Amortization of capital assets                 | 165 189                     | 183 601                     |
| Other                                          | <u>(68 399)</u>             | <u>13 096</u>               |
|                                                | <u>3 965 552</u>            | <u>5 369 437</u>            |
| <b>Loss before the following elements:</b>     | 2 414 523                   | 2 494 324                   |
| Investment related expenses (Note 4)           | 8 919 579                   | 40 851 452                  |
| Expenses linked to privatization (note 5)      | <u>68 073 284</u>           |                             |
| <b>NET LOSS</b>                                | 79 407 386                  | 43 345 776                  |
| <b>DEFICIT AT BEGINNING OF YEAR</b>            | <u>148 983 594</u>          | <u>105 637 818</u>          |
| <b>DEFICIT AT END OF YEAR</b>                  | <u><u>\$228 390 980</u></u> | <u><u>\$148 983 594</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL****BALANCE SHEET**  
as at March 31, 2005

|                                          | <u>2005</u>          | <u>2004</u>          |
|------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                            |                      |                      |
| <b>Current assets</b>                    |                      |                      |
| Cash                                     | \$2 682 641          | \$280 676            |
| Short-term investments (Note 6)          | 32 097 782           | 36 997 399           |
| Accounts receivable (Note 7)             | 1 082 871            | 3 090 923            |
| Prepaid expenses                         | 89 539               | 59 456               |
| Investments (Note 8)                     | <u>8 000 000</u>     |                      |
|                                          | 43 952 833           | <u>40 428 454</u>    |
| <b>Accounts receivable</b>               |                      | 113 362              |
| <b>Investments</b> (Note 8)              |                      | 153 277 741          |
| <b>Capital assets</b> (Note 9)           | <u>60 757</u>        | <u>207 230</u>       |
|                                          | <u>\$44 013 590</u>  | <u>\$194 026 787</u> |
| <b>LIABILITIES</b>                       |                      |                      |
| <b>Current liabilities</b>               |                      |                      |
| Accounts payable and accrued liabilities | \$2 456 570          | \$1 062 381          |
| Lothian Partner 27 SARL loan (Note 8)    | <u>8 000 000</u>     |                      |
|                                          | <u>10 456 570</u>    | <u>1 062 381</u>     |
| <b>SHAREHOLDER'S EQUITY</b>              |                      |                      |
| Share capital (Note 10)                  | 261 948 000          | 341 948 000          |
| Deficit                                  | <u>(228 390 980)</u> | <u>(148 983 594)</u> |
|                                          | <u>33 557 020</u>    | <u>192 964 406</u>   |
|                                          | <u>\$44 013 590</u>  | <u>\$194 026 787</u> |
| <b>COMMITMENTS</b> (Note 11)             |                      |                      |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Denise Martin, Chairman of the Board of Directors  
Robert Lafond, Chairman of the Audit Committee

## SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

## CASH FLOWS

for the year ended March 31, 2005

|                                                               | 2005                       | 2004                       |
|---------------------------------------------------------------|----------------------------|----------------------------|
| <b>CASH FLOWS APPLIED TO OPERATING ACTIVITIES</b>             |                            |                            |
| Net loss                                                      | \$(79 407 386)             | \$(43 345 776)             |
| Adjustments for:                                              |                            |                            |
| Amortization of capital assets                                | 165 189                    | 183 601                    |
| Gains on disposal of capital assets                           | (2 190)                    | (588)                      |
| Interest and dividends capitalized to investments             | (54 575)                   | (1 061 349)                |
| Loan impairment                                               |                            | 3 652 058                  |
| Permanent loss in value of investments                        | 8 495 378                  | 36 730 101                 |
| Losses on disposal of investments                             | 65 158 337                 | 739 208                    |
|                                                               | <u>(5 645 247)</u>         | <u>(3 102 745)</u>         |
| Change in non-cash items related to operations                |                            |                            |
| Changes in accounts receivable                                | 2 008 052                  | (223 219)                  |
| Changes in prepaid expenses                                   | (30 083)                   | 16 392                     |
| Changes in loans receivable                                   | 113 362                    | 1 539 748                  |
| Changes in accounts payable and accrued liabilities           | 1 394 189                  | (80 715)                   |
|                                                               | <u>(2 159 727)</u>         | <u>(1 850 539)</u>         |
| <b>CASH FLOWS APPLIED TO INVESTING ACTIVITIES</b>             |                            |                            |
| Acquisition of capital assets                                 | (20 114)                   | (45 956)                   |
| Proceeds on disposal of capital assets                        | 3 588                      | 1 603                      |
| Investments (Note 14)                                         | (10 207 277)               | (33 897 711)               |
| Proceeds on disposal of investments (Note 14)                 | 72 547 238                 | 13 528 646                 |
| Reimbursement of investments (Note 14)                        | 9 338 640                  | 1 892 799                  |
|                                                               | <u>71 662 075</u>          | <u>(18 520 619)</u>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |                            |                            |
| Lothian Partner 27 SARL loan (Note 8)                         | 8 000 000                  |                            |
| Capital stock buyback for cash (Note 10)                      | <u>(80 000 000)</u>        |                            |
|                                                               | <u>(72 000 000)</u>        |                            |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>              | (2 497 652)                | (20 371 158)               |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF YEAR</b>     | <u>37 278 075</u>          | <u>57 649 233</u>          |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR (Note 15)</b> | <u><u>\$34 780 423</u></u> | <u><u>\$37 278 075</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL****NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2005

**1. GOVERNING STATUTE AND NATURE OF ACTIVITIES**

Société Innovatech du Grand Montréal is a legal person of public law established under Chapter 33 of the statutes of 1992 and continued 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). The Société's mission is to promote and support initiatives designed to develop technological innovation capabilities in the territory described in Schedule A of its governing statutes, namely the south-western part of the Province of Québec, and thereby enhance competitiveness and economic growth of the Province of Québec.

The Société defines itself as a venture capital corporation, that is, its investments are made in the form of speculative investments in companies with strong growth potential.

Pursuant to federal and provincial income tax legislation, the Société is not subject to income taxes.

**2. ACCOUNTING POLICIES**

The financial statements of the Société have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts based on management's best estimates and judgments.

**Short-term investments**

Short-term investments are recorded at cost.

**Investments**

Investments are made in the form of:

- common shares
- preferred shares
- limited partnership units
- loans
- warrants
- investments in trust

Loans include capitalized interest, when provided for under agreement. Investments are accounted for at cost, less any permanent decline in value and allowance for loan impairment, if applicable.

**Allowance for loan impairment**

When loans are identified as impaired, their carrying amounts are reduced to their estimated realizable value. When the amounts and the timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable value is measured at observable market prices or according to management's judgment.

**Cash flows**

The Société presents in its cash and cash equivalents bank balances and short-term investments that are readily convertible into cash, and whose value is unlikely to change.

**Capital assets**

Capital assets are recorded at cost and amortized over their estimated useful lives under the straight-line method at the following rates:

- |                                  |         |
|----------------------------------|---------|
| - Furniture and equipment        | 20%     |
| - Computer hardware and software | 33 1/3% |
| - Leasehold improvements         | 20%     |

**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. PROFESSIONAL AND CONTRACTUAL SERVICES**

The amounts that the Société receives as reimbursement of expenses for analyzing investment files, representing \$101 900 (2004: \$214 088), are netted against professional and contractual services.

**4. INVESTMENT RELATED EXPENSES**

Investment related expenses are broken down as follows:

|                                        | 2005               | 2004                |
|----------------------------------------|--------------------|---------------------|
| Bad debts                              | \$424 201          | \$469 293           |
| Loan impairment                        |                    | 3 652 058           |
| Permanent loss in value of investments | 8 495 378          | 36 730 101          |
|                                        | <u>\$8 919 579</u> | <u>\$40 851 452</u> |

**5. EXPENSES LINKED TO PRIVATIZATION**

Expenses linked to privatization break down as follows:

|                                 | 2005                | 2004 |
|---------------------------------|---------------------|------|
| Loss on disposal of investments | \$65 371 009        |      |
| Professional fees               | 2 059 513           |      |
| Other                           | 642 762             |      |
|                                 | <u>\$68 073 284</u> |      |

**6. SHORT-TERM INVESTMENTS**

The Société's cash surpluses are invested in a treasury management fund and in liquid, low-risk investment vehicles.

**7. ACCOUNTS RECEIVABLE**

|                                                | 2005               | 2004               |
|------------------------------------------------|--------------------|--------------------|
| Accrued interest and other                     | \$192 768          | \$699 616          |
| Balance of sales price receivable              | 427 494            |                    |
| Proceeds receivable on disposal of investments | 462 609            | 2 391 307          |
|                                                | <u>\$1 082 871</u> | <u>\$3 090 923</u> |

## SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**8. INVESTMENTS**

|                                                          | 2005                                                         |                                      |                    | 2004                 |
|----------------------------------------------------------|--------------------------------------------------------------|--------------------------------------|--------------------|----------------------|
|                                                          | Book value<br>before<br>permanent<br>decline<br>for the year | Permanent<br>decline<br>for the year | Net book<br>value  | Net book<br>value    |
| Common shares                                            |                                                              |                                      |                    |                      |
| - private companies                                      |                                                              |                                      |                    | \$28 550 850         |
| - public companies                                       |                                                              |                                      |                    | 24 095 513           |
| Preferred redeemable and/or convertible<br>capital stock |                                                              |                                      |                    | 48 237 045           |
| Warrants                                                 |                                                              |                                      |                    | 7 500                |
| Shares in limited partnership                            | \$16 495 378                                                 | \$8 495 378                          | \$8 000 000        | 26 247 020           |
| Loans                                                    |                                                              |                                      |                    |                      |
| - convertible                                            |                                                              |                                      |                    | 16 240 443           |
| - non convertible                                        |                                                              |                                      |                    | 9 899 370            |
|                                                          | <u>\$16 495 378</u>                                          | <u>\$8 495 378</u>                   | <u>\$8 000 000</u> | <u>\$153 277 741</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, eight equity interests in limited partnerships could not be sold to Lothian Partner SARL 27 ("the buyer"). At March 31, 2005, the book value of these investments after write-downs was \$8 000 000.

To enable the Société to achieve its financial goals, it contracted a borrowing in the amount of \$8 000 000 from the buyer bearing interest at an annual rate of 5%, payable quarterly, and signed a derivative contract on investments with the latter. The lender will loan additional amounts if the Société requires them in the form of capital contributions in the limited partnerships kept. The borrowing will be repaid partly from the amounts the Société receives from distributions from limited partnerships. This borrowing is repayable on June 30, 2005. Repayment is subject to a ten-year deferral pending Gouvernement du Québec approval. If not, a new contract for a derivative product will have to be negotiated to ensure the same economic advantages for the buyer. When the borrowing expires, the Société is also entitled to buy back these securities.

The derivative contract was signed to manage the fair value risk of investments in limited partnerships and provides for the buyer paying an amount corresponding to 5% interest on the borrowing in quarterly instalments. Once the borrowing is due, the derivative contract states that the difference between the adjusted borrowing and the fair values of these shares will be paid to, or by, the buyer.

**9. CAPITAL ASSETS**

|                                | 2005             |                             |                 | 2004             |
|--------------------------------|------------------|-----------------------------|-----------------|------------------|
|                                | Cost             | Accumulated<br>amortization | Net             | Net              |
| Furniture and equipment        | \$96 288         | \$72 987                    | \$23 301        | \$40 969         |
| Computer hardware and software | 412 282          | 374 826                     | 37 456          | 164 411          |
| Leasehold improvements         |                  |                             |                 | 1 850            |
|                                | <u>\$508 570</u> | <u>\$447 813</u>            | <u>\$60 757</u> | <u>\$207 230</u> |

**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. 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.

The share capital is issued to the Minister of Finance, and is therefore under the responsibility of the Government of Québec.

|                                                           | <u>2005</u>          | <u>2004</u>          |
|-----------------------------------------------------------|----------------------|----------------------|
| Authorized:                                               |                      |                      |
| 3 500 000 common shares with a par value<br>of \$100 each |                      |                      |
| Issued and paid:                                          |                      |                      |
| 2 619 480 common shares                                   | <u>\$261 948 000</u> | <u>\$341 948 000</u> |

In March 2005, the Société bought back 800 000 common shares for \$80 000 000.

**11. COMMITMENTS**

As at March 31, 2005, the Société's commitments to limited partnerships were \$14 564 385, which are taken over by Lothian Partner 27 SARL.

**12. 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 has not entered into any business transactions 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.

**13. FINANCIAL INSTRUMENTS****Fair value**

The fair value of short-term financial instruments approximates their carrying amount, given their short-term maturity.

The fair value of long-term financial instruments has been determined internally using valuation methods used in venture capital markets.

Under these methods, common shares of private companies are valued at acquisition cost, unless a tangible, quantifiable event with a significant impact on the value of the companies substantiates an increase or a decrease in value. However, if the fair value of these instruments remains at acquisition cost for over 36 months due to the absence of such events, it will be reassessed extensively.

For the valuation of public companies with a volume of stock market transactions, the market value is the lower of the value established by the average closing price over a one-month period and the closing price at the valuation date. A marketability discount rate may be applied based on the volume traded to reflect the time required to sell the shares on the public market.

Fixed-income investments are valued by discounting cash flows when the rate of return is lower than the discount rate. If the rate of return is higher, the fair value remains at acquisition cost, unless a tangible event substantiates a write-down in value.

**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**13. FINANCIAL INSTRUMENTS (cont'd)****Fair value (cont'd)**

|                                    | 2005            |               |               |
|------------------------------------|-----------------|---------------|---------------|
|                                    | % Book<br>value | Book<br>value | Fair<br>value |
| Limited partnership units          | 100,0           | \$8 000 000   | \$8 000 000   |
|                                    |                 |               |               |
|                                    | 2004            |               |               |
|                                    | % Book<br>value | Book<br>value | Fair<br>value |
| Common shares of private companies | 18.6            | \$28 550 850  | \$22 135 858  |
| Common shares of public companies  | 15.7            | 24 095 513    | 33 731 839    |
| Preferred shares                   | 31.5            | 48 237 045    | 43 170 429    |
| Limited partnership units          | 17.1            | 26 247 020    | 17 435 793    |
| Loans                              | 17.1            | 26 139 813    | 27 519 314    |
| Warrants                           | 0.0             | 7 500         | 546 680       |
|                                    | 100.0           | \$153 277 741 | \$144 539 913 |

**Credit risk**

The Société is exposed to credit risk related to the receipt of accounts it grants. As a result, the Société reviews its receivables on an ongoing basis and, if applicable, records allowances for doubtful debts. These assets are presented at their book value in the balance sheet

**14. INVESTING ACTIVITIES**

Cash flows linked to investments activities include non-monetary transaction, representing disposal in the form of an exchange of interests for a total of \$388 326 (2004: \$5 712 150). These transactions result from a decline in investment and proceeds from their disposal for the fiscal year from \$10 595 603 to \$10 207 277 (2004: \$39 609 861 to \$33 897 711) and \$72 825 841 to \$72 547 238 (2004: \$19 240 796 to \$13 528 646). Investment repayments also exclude a non-monetary transaction of \$109 724.

**15. CASH AND CASH EQUIVALENTS**

|                        | 2005                | 2004                |
|------------------------|---------------------|---------------------|
| Cash                   | \$2 682 641         | \$280 676           |
| Short-term investments | 32 097 782          | 36 997 399          |
|                        | <u>\$34 780 423</u> | <u>\$37 278 075</u> |



**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL****MANAGEMENT'S REPORT**

---

The financial statements of Société Innovatech du Grand Montréal have been drawn up by management, which is responsible for their preparation and presentation, including significant estimates and judgments. This responsibility includes choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in this Annual Report is consistent with that shown in the financial statements.

In assuming its responsibility, management maintains the necessary accounting and internal control systems designed to provide reasonable assurance that assets are safeguarded, transactions are recorded in an appropriate and timely manner and are duly approved, and reliable financial statements are prepared.

The Corporation acknowledges that it is responsible for managing its affairs in accordance with its governing legislation and regulations.

The Board of Directors oversees the manner in which management assumes its responsibilities with respect to financial information and has approved the financial statements. It is assisted by the Audit Committee, whose members are not members of management. The Committee meets with management and the auditor, reviews the financial statements and recommends their approval by the Board of Directors.

The Auditor General of Québec has audited the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. Her report describes the nature and scope of the audit and gives her opinion thereon. The Auditor General may meet freely with the Audit Committee to discuss any matter related to this audit.

Jacques Allard  
Management Coordinator

Montréal, April 27, 2005

**SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL****AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the balance sheet of Société Innovatech du Grand Montréal as at March 31, 2005 and the statements of loss 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. 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 the 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 Société as at March 31, 2005 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 have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA  
Auditor General of Québec

Québec, April 27, 2005

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**  
(R.S.Q. c. S-17.2.2)

INCOME  
for the year ended March 31, 2005

|                                                          | <u>2005</u>                 | <u>2004</u>                  |
|----------------------------------------------------------|-----------------------------|------------------------------|
| <b>REVENUE</b>                                           |                             |                              |
| Interest income                                          | \$771 766                   | \$1 519 846                  |
| Dividend income                                          | 104 205                     | 188 110                      |
| Interest on bank balance and short-term investment       | 40 783                      | 86 164                       |
| Investment and management fees                           | <u>71 630</u>               | <u>73 706</u>                |
|                                                          | 988 384                     | 1 867 826                    |
| <b>EXPENDITURE</b>                                       |                             |                              |
| Operating expenses:                                      |                             |                              |
| Salaries and fringe benefits                             | 659 444                     | 1 013 100                    |
| Professional and contractual services                    | 143 856                     | 133 238                      |
| Rent, taxes and insurance                                | 97 844                      | 122 278                      |
| Travelling and business development                      | 34 197                      | 101 185                      |
| Office expenses                                          | 48 998                      | 59 132                       |
| Advertising and promotion                                | 10 922                      | 23 888                       |
| Telephone and messenger services                         | 12 946                      | 19 161                       |
| Training                                                 | 4 249                       | 18 435                       |
| Bank charges                                             | 1 757                       | 1 794                        |
| Loss on disposal of fixed assets                         | 3 564                       |                              |
| Depreciation of fixed assets                             | <u>28 446</u>               | <u>28 421</u>                |
|                                                          | 1 046 223                   | 1 520 632                    |
| <b>(LOSS) GAIN BEFORE FEES LINKED<br/>TO INVESTMENTS</b> | <u>(57 839)</u>             | <u>347 194</u>               |
| (Gains) losses on disposal of investments                | (748 597)                   | 1 628 000                    |
| Doubtful accounts                                        | 92 779                      | 1 463 287                    |
| Capital losses on debentures and loans                   | 2 193 690                   | 5 678 551                    |
| Capital losses on stock investments                      | <u>4 025 601</u>            | <u>4 484 688</u>             |
|                                                          | 5 563 473                   | 13 254 526                   |
| <b>NET LOSS</b>                                          | <u><u>\$(5 621 312)</u></u> | <u><u>\$(12 907 332)</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC****CONTRIBUTED SURPLUS AND DEFICIT**  
for the year ended March 31, 2005

|                                            | <u>2005</u>                  | <u>2004</u>                  |
|--------------------------------------------|------------------------------|------------------------------|
| <b>CONTRIBUTED SURPLUS</b>                 |                              |                              |
| Opening balance                            |                              | \$1 385 130                  |
| Transfer to deficit (Note 9)               |                              | <u>(1 385 130)</u>           |
| <b>CLOSING BALANCE</b>                     |                              |                              |
|                                            |                              |                              |
| <b>DEFICIT</b>                             |                              |                              |
| Opening balance                            | \$(30 978 016)               | \$(19 455 814)               |
| Transfer from contributed surplus (Note 9) |                              | <u>1 385 130</u>             |
|                                            | <u>(30 978 016)</u>          | <u>(18 070 684)</u>          |
| Net loss                                   | <u>(5 621 312)</u>           | <u>(12 907 332)</u>          |
| <b>CLOSING BALANCE</b>                     | <u><u>\$(36 599 328)</u></u> | <u><u>\$(30 978 016)</u></u> |

The notes are an integral part of these financial statements.

## SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                | <u>2005</u>                | <u>2004</u>                |
|--------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                  |                            |                            |
| <b>Current assets</b>          |                            |                            |
| Cash on hand                   | \$836 018                  | \$2 281 519                |
| Short-term investment (Note 4) | 380 972                    | 502 238                    |
| Accounts receivable (Note 5)   | 102 111                    | 114 370                    |
| Prepaid expenses               | 18 298                     | 19 843                     |
|                                | <u>1 337 399</u>           | <u>2 917 970</u>           |
| <b>Investments</b> (Note 6)    | 15 642 833                 | 18 181 659                 |
| <b>Fixed assets</b> (Note 7)   | <u>57 406</u>              | <u>42 041</u>              |
|                                | <u><u>\$17 037 638</u></u> | <u><u>\$21 141 670</u></u> |
| <b>LIABILITIES</b>             |                            |                            |
| <b>Current liabilities</b>     |                            |                            |
| Accounts payable and accruals  | <u>\$136 166</u>           | <u>\$118 886</u>           |
| <b>SHAREHOLDER'S EQUITY</b>    |                            |                            |
| Capital stock (Note 8)         | 53 500 800                 | 52 000 800                 |
| Deficit                        | <u>(36 599 328)</u>        | <u>(30 978 016)</u>        |
|                                | <u>16 901 472</u>          | <u>21 022 784</u>          |
|                                | <u><u>\$17 037 638</u></u> | <u><u>\$21 141 670</u></u> |
| <b>COMMITMENTS</b> (Note 12)   |                            |                            |
| <b>CONTINGENCIES</b> (Note 13) |                            |                            |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 Pierre Beaudoin, Chairman of the Board  
 Daniel Poisson, President and Chief Executive Officer

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC****CASH FLOW**  
for the year ended March 31, 2005

|                                                         | <u>2005</u>               | <u>2004</u>               |
|---------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                             |                           |                           |
| Net loss                                                | \$(5 621 312)             | \$(12 907 332)            |
| Adjustments for:                                        |                           |                           |
| Amortization of fixed assets                            | 28 446                    | 28 421                    |
| Capitalized interest on investments                     | (471 408)                 | 177 237                   |
| Capital losses on debentures and loans                  | 2 193 690                 | 5 678 551                 |
| Capital losses on stock investments                     | 4 025 601                 | 4 484 688                 |
| (Gain) loss on disposal of investments                  | (748 597)                 | 1 628 000                 |
| Loss on disposal of fixed assets                        | 3 564                     |                           |
|                                                         | <u>(590 016)</u>          | <u>(910 435)</u>          |
| Changes in non-cash items related to operations:        |                           |                           |
| Decrease in debtors                                     | 12 259                    | 18 026                    |
| Decrease in prepaid costs                               | 1 545                     | 4 849                     |
| Variation in creditors and accrued costs                | <u>17 280</u>             | <u>42 053</u>             |
| Cash flows used for operations                          | <u>(558 932)</u>          | <u>(845 507)</u>          |
| <b>INVESTMENT ACTIVITIES</b>                            |                           |                           |
| Acquisition of fixed assets                             | (50 755)                  | (8 828)                   |
| Acquisition of investments                              | (3 067 358)               | (3 528 416)               |
| Recovery of loans and debentures                        | 145 000                   | 500 000                   |
| Proceeds from disposal of investments                   | 461 898                   | 686 011                   |
| Proceeds from disposal of fixed assets                  | <u>3 380</u>              |                           |
| Cash flows used for operations                          | <u>(2 507 835)</u>        | <u>(2 351 233)</u>        |
| <b>FINANCING ACTIVITIES</b>                             |                           |                           |
| Cash flows from:                                        |                           |                           |
| Capital stock issue (Note 8)                            | <u>1 500 000</u>          | <u>1 000 000</u>          |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>            | (1 566 767)               | (2 196 740)               |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <u>2 783 757</u>          | <u>4 980 497</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 10)</b> | <u><u>\$1 216 990</u></u> | <u><u>\$2 783 757</u></u> |

The notes are an integral part of these financial statements.

## SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

### NOTES TO FINANCIAL STATEMENTS March 31, 2005

---

#### 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, i.e. the Act respecting Société Innovatech du sud du Québec (R.S.Q., c. S-17.2.2). The Société's mission is 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 is not subject to income tax under federal and provincial income tax legislation.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

#### 2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

##### Short-term investments

Short-term investments are recorded at their fair value.

##### Investments

Investments are recorded at their fair value, i.e. the estimated exchange value agreed on by competent parties acting freely under fully competitive conditions. The fair value was established as follows:

##### a) Unlisted shares

Unlisted shares comprise shares, shares in limited partnerships, debentures, loans and derivative instruments. They are evaluated using 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. When the amounts and moment of cash flow capitalization cannot be reasonably and reliably estimated, the estimated capitalization value is measured based on observable market prices for these loans or management's judgement.

##### 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. A liquid assets discount may be applied depending on the volume transacted to reflect the time involved in selling shares on the public market. Brokers' fees are considered in establishing the fair value.

##### Cash flows

Under cash and cash equivalents, the Société presents bank balances, minus outstanding cheques and short-term investments that are convertible into cash in the short term and whose value is unlikely to change.

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**2. ACCOUNTING POLICIES (cont'd)****Fixed assets**

Fixed assets are recorded at cost and depreciated over their estimated useful lives on a straight-line basis at the following rates:

|                                 |                                   |
|---------------------------------|-----------------------------------|
| Furniture and equipment         | 20%                               |
| Computer equipment and material | 20% and 33%                       |
| Leasehold improvements          | 20% or the remainder of the lease |

**3. CHANGE IN AN ACCOUNTING POLICY**

On April 1, 2004, the Société anticipatedly adopted accounting guideline AcG-18 governing investment corporations and stipulating that investments must be posted at their fair value.

Previous fiscal years presented investments at net book value, i.e. cost minus any permanent decline in value and any provision for doubtful loans, where applicable.

This change was applied prospectively and increased (decreased) the following financial statement items for the fiscal year ended March 31, 2005:

|                                              |             |
|----------------------------------------------|-------------|
| Investments                                  |             |
| Common shares                                | \$2 242 903 |
| Permanent capital loss on equity investments | (2 242 903) |

**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.

**5. ACCOUNTS RECEIVABLE**

|                                 | 2005             | 2004             |
|---------------------------------|------------------|------------------|
| Accounts receivable             | \$235 384        | \$152 627        |
| Allowance for doubtful accounts | (145 895)        | (56 278)         |
|                                 | 89 489           | 96 349           |
| Other                           | 12 622           | 18 021           |
|                                 | <u>\$102 111</u> | <u>\$114 370</u> |



## SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**6. INVESTMENTS**

|                                  | Fair value<br>2005  | Fair value<br>2004  | Net book<br>value<br>2004 |
|----------------------------------|---------------------|---------------------|---------------------------|
| Common shares                    |                     |                     |                           |
| Private corporations             | \$2 025 215         | \$3 981 004         | \$3 426 806               |
| Public corporations              | 655 048             | 2 847 578           | 1 158 873                 |
| Securities convertible to shares |                     |                     |                           |
| Preferred shares                 |                     |                     |                           |
| Redeemable                       | 52 900              | 241 790             | 241 790                   |
| Non-redeemable                   | 6 112 222           | 6 425 127           | 6 425 127                 |
| Debentures and loans             |                     |                     |                           |
| Maturing between 2005 to 2008    | 5 840 593           | 5 424 292           | 5 424 292                 |
| No maturity date                 | 250 000             | 500 000             | 500 000                   |
| Non-convertible securities       |                     |                     |                           |
| Preferred shares                 |                     |                     |                           |
| Redeemable                       | 16 294              | 16 394              | 16 394                    |
| Non-redeemable                   | 95 558              | 95 558              | 95 558                    |
| Debentures and loans             |                     |                     |                           |
| Maturing between 2005 to 2010    | 494 358             | 859 014             | 859 014                   |
| Shares in a limited partnership  | 100 645             | 33 805              | 33 805                    |
|                                  | <u>\$15 642 833</u> | <u>\$20 424 562</u> | <u>\$18 181 659</u>       |

**7. FIXED ASSETS**

|                                 | 2005             |                             | 2004            |
|---------------------------------|------------------|-----------------------------|-----------------|
|                                 | Cost             | Accumulated<br>depreciation | Net             |
| Furniture and equipment         | \$29 935         | \$22 299                    | \$7 636         |
| Computer equipment and material | 50 292           | 40 159                      | 10 133          |
| Leasehold improvements          | 88 815           | 49 178                      | 39 637          |
|                                 | <u>\$169 042</u> | <u>\$111 636</u>            | <u>\$57 406</u> |
|                                 |                  |                             | <u>\$42 041</u> |

**8. CAPITAL STOCK**

The Act respecting the Société Innovatech du Sud du Québec is notably designed to enable the Société to survive and be endowed with an authorized partnership fund of \$100 000 000.

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

|                                                        | 2005                | 2004                |
|--------------------------------------------------------|---------------------|---------------------|
| Authorized:                                            |                     |                     |
| 1 000 000 common shares with a par value of \$100 each |                     |                     |
| Issued and paid:                                       |                     |                     |
| 535 008 common shares (520 008 shares in 2004)         | <u>\$53 500 800</u> | <u>\$52 000 800</u> |

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**8. CAPITAL STOCK (cont'd)**

During the fiscal year, the Société issued 15 000 common shares for a cash consideration of \$1 500 000 (2004: 10 000 common shares for an amount of \$1 000 000).

**9. CONTRIBUTED SURPLUS**

On April 21, 2003, the contributed surplus was used to reduce the deficit, with the consent of the sole shareholder, the Ministère des Finances du Québec.

**10. CASH FLOWS**

Cash and cash equivalents shown in the cash flow statements include the following amounts posted to the balance sheet:

|                       | 2005               | 2004               |
|-----------------------|--------------------|--------------------|
| Cash on hand          | \$836 018          | \$2 281 519        |
| Short-term investment | 380 972            | 502 238            |
|                       | <u>\$1 216 990</u> | <u>\$2 783 757</u> |

During the fiscal year, the Société acquired common shares at a cost of \$100 000 in exchange for the cancellation of interest receivable of an equivalent amount.

It also converted accrued interest in the amount of \$64 233 to \$2 250 in common shares and \$61 983 in convertible preferred shares.

In disposing of an investment in 2004, the sales price balance was related to events in 2005 whose outcome had been impossible to determine. The sales price balance, in the amount of \$286 806, was paid by the Société issuing common shares to the buyer.

**11. 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 either 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 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.

**12. COMMITMENTS**

The Société committed, under a lease, to renting offices for a two-year period ending March 31, 2007. Total commitments represent \$102 524, or \$51 262 annually.

As at March 31 2005, the Société's commitments with respect to financial support for initiatives are of \$2 313 713 (\$6 066 738 as at March 31, 2004). These commitments represent the investments authorized by the Société's board of directors, which had not been disbursed at March 31, 2005. Following certain events, these amounts might not be paid out.

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**13. CONTINGENCIES**

There is currently a lawsuit against the Société. In the latter's opinion, the outcome cannot significantly influence its financial position or its operating results.

In a transaction involving the sale of an investment, the Société vouched for the buyer until September 2006 against potential claims for a maximum amount of \$200 000. It is impossible to determine whether the Société will have to assume this responsibility.

**14. FINANCIAL INSTRUMENTS**
**Fair value**

The fair value of cash and the short-term investment is assessed at their fair value, given that they mature in the near future.

**Credit risk**

The Société is exposed to the economic conditions affecting the sectors in which it carries out its activities. At March 31, 2005, investments fall into the following sectors:

|                          | 2005 | 2004 |
|--------------------------|------|------|
| Biotechnologies          | 33%  | 41%  |
| Information technologies | 60%  | 47%  |
| Industrial technologies  | 7%   | 12%  |

**Interest-rate risk**

Interest rates on investments and the inherent risk to which the Société is exposed regarding interest rates at March 31, 2005 are summarized below:

|               | Nominal reference amount <sup>1</sup>  |                                               |                     | Fair value                             |                                               |                    |
|---------------|----------------------------------------|-----------------------------------------------|---------------------|----------------------------------------|-----------------------------------------------|--------------------|
|               | Convertible<br>debentures<br>and loans | Non<br>convertible<br>debentures<br>and loans | Total               | Convertible<br>debentures<br>and loans | Non<br>convertible<br>debentures<br>and loans | Total              |
| Fixed rates : |                                        |                                               |                     |                                        |                                               |                    |
| 10 and 11%    | \$886 159                              | \$748 461                                     | \$1 634 620         | \$571 073                              | \$494 358                                     | \$1 065 431        |
| 12 and 13%    | 2 134 574                              |                                               | 2 134 574           | 321 475                                |                                               | 321 475            |
| 14 and 15%    | 6 877 845                              |                                               | 6 877 845           | 4 125 318                              |                                               | 4 125 318          |
| 16 % and more | 1 072 727                              |                                               | 1 072 727           | 1 072 727                              |                                               | 1 072 727          |
|               | <u>\$10 971 305</u>                    | <u>\$748 461</u>                              | <u>\$11 719 766</u> | <u>\$6 090 593</u>                     | <u>\$494 358</u>                              | <u>\$6 584 951</u> |

Average effective interest rate: 13.94%.

1 These amounts capitalized and accrued interest.

**15. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC****MANAGEMENT'S REPORT**

---

The financial statements of the Société Innovatech du sud du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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. It is assisted by the audit committee, whose members are not management. This committee meets with management and the auditor, 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 the auditing standards that are generally accepted in Canada. 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.

Daniel Poisson, M.B.A.  
President and Chief Executive Officer

Serge Blackburn, B.Sc, CA  
Vice-President, Finance and Investments

Sherbrooke, April 29, 2005

**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, 2005 and the statements of income, contributed surplus, deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles from Canada. 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 change in the manner of posting investments disclosed 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, April 29, 2005

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**  
(R.S.Q., c. S-17.4)

**RESULTS AND DEFICIT**

For the year ended March 31, 2005

|                                                                                  | <u>2005</u>         | <u>2004</u>         |
|----------------------------------------------------------------------------------|---------------------|---------------------|
| <b>REVENUE</b>                                                                   |                     |                     |
| Investment income                                                                | \$1 150 818         | \$1 826 384         |
| Interest on demand deposits and short-term investments                           | 95 947              | 125 615             |
| Management fees                                                                  | 43 857              | 254 490             |
| Gain on disposal of investments                                                  | 2 387 739           | 4 873 119           |
| Gain on disposal of fixed assets                                                 | <u>1 663</u>        | <u>1 663</u>        |
|                                                                                  | <u>3 678 361</u>    | <u>7 081 271</u>    |
| <b>EXPENDITURE</b>                                                               |                     |                     |
| Operating expenses (Note 11):                                                    |                     |                     |
| Salaries and fringe benefits                                                     | 923 075             | 1 360 988           |
| Professional and contractual services                                            | 102 293             | 58 713              |
| Rent                                                                             | 124 283             | 129 479             |
| Advertising and promotion                                                        | 17 438              | 74 560              |
| Travelling and business development                                              | 37 398              | 59 863              |
| Office expenses                                                                  | 77 742              | 89 572              |
| Communications                                                                   | 18 172              | 25 094              |
| Exchange losses                                                                  | 44 541              | 34 874              |
| Loss on disposal of fixed assets                                                 | <u>646</u>          | <u>646</u>          |
| Depreciation of fixed assets                                                     | <u>45 195</u>       | <u>58 125</u>       |
|                                                                                  | <u>1 390 137</u>    | <u>1 891 914</u>    |
| Bad debts                                                                        | 68 624              | 74 999              |
| Doubtful loans                                                                   | 3 255 828           | 7 963 070           |
| Permanent declines in value, write-offs and losses<br>on disposal of investments | <u>11 293 997</u>   | <u>12 988 537</u>   |
|                                                                                  | <u>14 618 449</u>   | <u>21 026 606</u>   |
|                                                                                  | <u>16 008 586</u>   | <u>22 918 520</u>   |
| <b>NET LOSS</b>                                                                  | 12 330 225          | 15 837 249          |
| <b>DEFICIT, BEGINNING OF YEAR</b>                                                | <u>40 631 169</u>   | <u>24 793 920</u>   |
| <b>DEFICIT, END OF YEAR</b>                                                      | <u>\$52 961 394</u> | <u>\$40 631 169</u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**
**BALANCE SHEET**  
 as at March 31, 2005

|                                     | <u>2005</u>         | <u>2004</u>         |
|-------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                       |                     |                     |
| <b>Current assets</b>               |                     |                     |
| Cash on hand                        | \$4 670 797         | \$5 004 843         |
| Short-term investments (Note 3)     | 905 646             | 996 120             |
| Accounts receivable (Note 4)        | 196 052             | 698 095             |
| Proceeds from sales receivable      | 255 820             | 244 801             |
| Prepaid expenses                    | 36 422              | 26 463              |
|                                     | <u>6 064 737</u>    | <u>6 970 322</u>    |
| <b>Investments</b> (Notes 6 and 13) | 67 816 436          | 79 261 220          |
| <b>Fixed assets</b> (Note 5)        | <u>53 982</u>       | <u>84 099</u>       |
|                                     | <u>\$73 935 155</u> | <u>\$86 315 641</u> |
| <b>LIABILITIES</b>                  |                     |                     |
| <b>Current liabilities</b>          |                     |                     |
| Accounts payable and accruals       | <u>\$113 453</u>    | <u>\$163 714</u>    |
| <b>SHAREHOLDER'S EQUITY</b>         |                     |                     |
| Capital stock (Note 8)              | 126 783 096         | 126 783 096         |
| Deficit                             | <u>(52 961 394)</u> | <u>(40 631 169)</u> |
|                                     | <u>73 821 702</u>   | <u>86 151 927</u>   |
|                                     | <u>\$73 935 155</u> | <u>\$86 315 641</u> |
| <b>COMMITMENTS</b> (Note 12)        |                     |                     |
| <b>CONTINGENCY</b> (Note 14)        |                     |                     |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
 Francine Laurent  
 Francine Bonicalzi

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES****CASH FLOW**

for the year ended March 31, 2005

|                                                                                            | <u>2005</u>               | <u>2004</u>               |
|--------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                                                                |                           |                           |
| Net loss                                                                                   | \$(12 330 225)            | \$(15 837 249)            |
| Elements not affecting cash flows:                                                         |                           |                           |
| Depreciation of fixed assets                                                               | 45 195                    | 58 125                    |
| Capital interest on investments                                                            | (839 643)                 | (538 857)                 |
| Stock dividends                                                                            |                           | (49 856)                  |
| Permanent declines in value, write-offs and losses<br>on disposal of investments (Note 10) | 11 293 997                | 12 988 537                |
| Doubtful loans                                                                             | 3 255 828                 | 7 963 070                 |
| Gain on disposal of investments (Note 10)                                                  | (2 387 739)               | (4 873 119)               |
| Other elements with no effect on cash flows                                                | 1 740                     | 39 006                    |
|                                                                                            | <u>(960 847)</u>          | <u>(250 343)</u>          |
| Change in non-cash items linked to operations (Note 9)                                     | <u>430 804</u>            | <u>(338 946)</u>          |
| Cash flows used for operating activities                                                   | <u>(530 043)</u>          | <u>(589 289)</u>          |
| <b>INVESTMENT ACTIVITIES</b>                                                               |                           |                           |
| Acquisition of fixed assets                                                                | (15 078)                  | (1 129)                   |
| Acquisition of investments (Note 10)                                                       | (6 583 679)               | (14 715 136)              |
| Recovery of debentures, loans and refundable<br>contributions (Note 10)                    | 1 008 359                 | 2 591 366                 |
| Proceeds from disposal of shares (Note 10)                                                 | <u>5 695 921</u>          | <u>7 964 440</u>          |
| Cash flows provided by (used for) investment activities                                    | <u>105 523</u>            | <u>(4 160 459)</u>        |
| <b>FINANCING ACTIVITIES</b>                                                                |                           |                           |
| Cash flows provided by financing activities:                                               |                           |                           |
| Capital stock issue                                                                        |                           | <u>1 800 000</u>          |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                                               | (424 520)                 | (2 949 748)               |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                        | <u>6 000 963</u>          | <u>8 950 711</u>          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                              | <u><u>\$5 576 443</u></u> | <u><u>\$6 000 963</u></u> |
| <br>Cash on hand                                                                           | <br>\$4 670 797           | <br>\$5 004 843           |
| Short-term investments                                                                     | <u>905 646</u>            | <u>996 120</u>            |
| Cash and cash equivalents, end of year                                                     | <u><u>\$5 576 443</u></u> | <u><u>\$6 000 963</u></u> |

The notes are an integral part of these financial statements.



## SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

#### 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). The Société's mission is 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 a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

The Société is not subject to income tax under federal or provincial income tax legislation.

As a follow-up to the 2004-2005 Budget Speech by the Québec Minister of Finance delivered on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004 that the Société would be changed to a limited partnership with mixed public and private funding.

#### 2. ACCOUNTING POLICIES

##### Use of estimates

The preparation of financial statements according to the accounting policies that are generally accepted in Canada requires the use of estimates affecting the assets and liabilities recorded, the presentation of potential assets and liabilities and the products and charges recorded. The main estimates are related to the evaluation of long-term investments and fixed assets.

##### Cash and cash equivalents

The Société's policy consists in presenting 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.

##### Short-term investments

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

##### Investments

Investments are recorded at acquisition cost. All permanent declines in value and provisions for doubtful debts reduce the acquisition costs. Some share certificates include capitalized products when this situation is stipulated by agreement.

##### Allowance for doubtful loans

When it is established that there are risks regarding recovery of investments, the accounting values are considered to correspond to their estimated disposable value. When the amounts and time of disposal for future cash flows cannot be estimated relatively reasonably, the estimated disposal values are measured according to the market prices observable for these investments or based on management's judgement. When a debt is considered doubtful, the related interest income is no longer posted.

##### Fixed assets

Fixed assets are recorded at acquisition cost and amortized over their services lives on a straight-line basis as follows:

|                           |         |
|---------------------------|---------|
| Equipment                 | 6 years |
| Data processing equipment | 3 years |
| Leasehold improvements    | 4 years |
| Office equipment          | 4 years |

## SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. SHORT-TERM INVESTMENTS**

|                                                       | 2005             | 2004             |
|-------------------------------------------------------|------------------|------------------|
| Banker's acceptance at 2.12%, matured May 2004        |                  | \$996 120        |
| Investment certificate at 2.45 %, maturing April 2005 | \$604 800        |                  |
| Banker's acceptance at 2.55%, maturing May 2005       | 300 846          |                  |
|                                                       | <u>\$905 646</u> | <u>\$996 120</u> |

**4. ACCOUNTS RECEIVABLE**

|                                                                                                             | 2005             | 2004             |
|-------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Interest receivable on investments including<br>a \$53 078 provision for doubtful<br>debts (2004: \$25 678) | \$180 650        | \$683 496        |
| Interest receivable on short-term investments                                                               | 2 095            | 1 790            |
| Other, including a \$11 003 provision for<br>doubtful debts (2004: \$8 100)                                 | 13 307           | 12 809           |
|                                                                                                             | <u>\$196 052</u> | <u>\$698 095</u> |

**5. FIXED ASSETS**

|                           | 2005             |                             |                 | 2004            |
|---------------------------|------------------|-----------------------------|-----------------|-----------------|
|                           | Cost             | Accumulated<br>depreciation | Net             | Net             |
| Furniture and equipment   | \$135 469        | \$120 646                   | \$14 823        | \$25 008        |
| Data processing equipment | 127 456          | 109 733                     | 17 723          | 17 354          |
| Leasehold improvements    | 143 144          | 123 376                     | 19 768          | 36 318          |
| Office equipment          | 15 004           | 13 336                      | 1 668           | 5 419           |
|                           | <u>\$421 073</u> | <u>\$367 091</u>            | <u>\$53 982</u> | <u>\$84 099</u> |

**6. LONG-TERM INVESTMENTS**

|                                                                                  | 2005                | 2004                |
|----------------------------------------------------------------------------------|---------------------|---------------------|
| Common stock                                                                     |                     |                     |
| private corporations                                                             | \$28 239 794        | \$35 406 930        |
| public corporations (stock market value: \$11 879 894;<br>in 2004: \$17 379 278) | 10 420 518          | 8 053 783           |
| Securities convertible into common stock:                                        |                     |                     |
| Capital stock                                                                    | 35 348 049          | 34 707 176          |
| Debentures and loans (Note 13c)                                                  |                     |                     |
| maturing from 2004 to 2012                                                       | 7 805 086           | 11 199 858          |
| on demand                                                                        | 1 825 314           | 1 014 384           |
| Amounts carried forward                                                          | <u>\$83 638 761</u> | <u>\$90 382 131</u> |

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**6. LONG-TERM INVESTMENTS (cont'd)**

|                                                | 2005                | 2004                |
|------------------------------------------------|---------------------|---------------------|
| Amounts brought forward                        | \$83 638 761        | \$90 382 131        |
| Securities not convertible                     |                     |                     |
| Capital stock                                  | 1 730 543           | 3 360 350           |
| Debentures and loans (Note 13c)                |                     |                     |
| maturing from 2006 to 2009                     | 995 379             | 1 198 698           |
| on demand                                      | 200 000             | 540 000             |
| Refundable contributions (Note 13c)            |                     |                     |
| maturing in 2011                               | 1 500 000           | 1 750 000           |
| no maturity date                               | 4 825 888           | 4 825 888           |
| Advances under the Research Promotion Program  |                     | 1 000 028           |
|                                                | <u>92 890 571</u>   | <u>103 057 095</u>  |
| Less:                                          |                     |                     |
| Allowance for doubtful loans *                 |                     |                     |
| Debentures, loans and refundable contributions |                     |                     |
| convertible                                    | 795 380             | 1 874 897           |
| non convertible                                | 4 561 217           | 3 139 378           |
| Permanent decline in value of capital stock    | <u>19 717 538</u>   | <u>18 781 600</u>   |
|                                                | <u>25 074 135</u>   | <u>23 795 875</u>   |
|                                                | <u>\$67 816 436</u> | <u>\$79 261 220</u> |

\* Doubtful debts correspond to debentures, loans and repayable contributions that are subject to a partial or provision. At March 31, the cost of doubtful debts was:

|                                                 | 2005               | 2004                |
|-------------------------------------------------|--------------------|---------------------|
| Debentures, loans and refundable contributions: |                    |                     |
| convertible                                     | \$1 141 664        | \$5 163 669         |
| non convertible                                 | <u>5 351 217</u>   | <u>5 173 378</u>    |
|                                                 | <u>\$6 492 881</u> | <u>\$10 337 047</u> |

**7. RENEWABLE CREDIT DEMAND**

A credit demand for \$3 000 000 renewable on June 30, 2005 was authorized at the Canadian financial institution prime rate. It is guaranteed by a general moveable first hypothec of \$3 000 000 on all fixed and intangible moveables, present and future, wherever they are located. At March 31, 2005, the balance of this credit was zero.

**8. CAPITAL STOCK**

The Act respecting the Société Innovatech Québec et Chaudière-Appalaches is notably designed to enable the Société to survive and to be endowed with an authorized partnership fund of \$150 000 000.

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**8. CAPITAL STOCK (cont'd)**

Shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance.

|                                                           | <u>2005</u>          | <u>2004</u>          |
|-----------------------------------------------------------|----------------------|----------------------|
| Authorized:                                               |                      |                      |
| 1 500 000 common shares<br>with a par value of \$100 each |                      |                      |
| Issued and paid:                                          |                      |                      |
| 1 267 830 common shares (2004: 1 267 830 common shares)   | <u>\$126 783 096</u> | <u>\$126 783 096</u> |

During the fiscal year, the Société issued no common shares (2004: 18 000 common shares for \$1 800 000 in cash).

**9. CHANGE IN NON-CASH ITEMS LINKED TO OPERATIONS**

|                                   | <u>2005</u>      | <u>2004</u>        |
|-----------------------------------|------------------|--------------------|
| Increase in accounts receivable * | \$491 024        | \$(295 683)        |
| Increase in prepaid expenses      | (9 959)          | 31 749             |
| Change in accounts payable        | <u>(50 261)</u>  | <u>(75 012)</u>    |
|                                   | <u>\$430 804</u> | <u>\$(338 946)</u> |

\* Including the proceeds from disposal receivable in the short term.

**10. INVESTMENT ACTIVITIES**

|                                                                            | <u>2005</u>        | <u>2004</u>         |
|----------------------------------------------------------------------------|--------------------|---------------------|
| Acquisition of investments                                                 | \$13 494 048       | \$16 428 359        |
| Non-monetary transactions                                                  | <u>(6 910 369)</u> | <u>(1 713 223)</u>  |
| Cash flows - Acquisition of investments                                    | <u>\$6 583 679</u> | <u>\$14 715 136</u> |
| Recovery of debentures, loans and<br>refundable contributions              | \$1 408 359        | \$2 591 366         |
| Non-monetary transactions                                                  | <u>(400 000)</u>   | <u></u>             |
| Cash flows – Recovery of debentures, loans and<br>refundable contributions | <u>\$1 008 359</u> | <u>\$2 591 366</u>  |
| Proceeds from the disposal of shares minus commission                      | \$12 206 290       | \$9 677 663         |
| Non-monetary transactions                                                  | <u>(6 510 369)</u> | <u>(1 713 223)</u>  |
| Cash flows— Proceeds from sale of shares                                   | <u>\$5 695 921</u> | <u>\$7 964 440</u>  |

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**10. INVESTMENT ACTIVITIES (cont'd)**

|                                                                                              | 2005                | 2004                |
|----------------------------------------------------------------------------------------------|---------------------|---------------------|
| Permanent decline in value, write-offs and losses<br>on disposal of investments              | \$9 796 049         | \$11 391 693        |
| Non-monetary transactions – losses on disposal                                               | 1 497 948           | 1 596 844           |
| Cash flows – Permanent decline in value, write-offs and losses<br>on disposal of investments | <u>\$11 293 997</u> | <u>\$12 988 537</u> |
| Gains on disposal of investments                                                             | \$2 288 901         | \$4 873 119         |
| Non-monetary transactions                                                                    | 98 838              |                     |
| Cash flows – Gains on disposal of investments                                                | <u>\$2 387 739</u>  | <u>\$4 873 119</u>  |

**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 either joint control or significant influence by it. The Société 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.

**12. COMMITMENTS**

As at March 31, 2005, the Société's commitments with respect to financial support for initiatives amounted to \$5 426 026 (March 2004: \$10 245 604).

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, 2005. Depending on certain events, these amounts may not be paid out.

**13. FINANCIAL INSTRUMENTS****a) Fair value**

The fair value of current financial instruments is equivalent to their book value given their short-term due dates. The fair value of listed shares is established based on the closing price the date of the financial statement. The fair value of other long-term financial instruments is determined internally using the valuation methods used in venture capital markets. These methods notably foresee having ordinary capital stock presented at the cost of acquisition, unless a concrete event, that is quantifiable and that has a significant impact on the value of enterprises justifies an increase or decrease in value. However, if these instruments remain at acquisition cost for a period exceeding 36 months due to absence of events, they will undergo in-depth valuation.

## SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**13. FINANCIAL INSTRUMENTS (cont'd)****a) Fair value (cont'd)**

|                                               | 2005    |              |              | 2004    |              |              |
|-----------------------------------------------|---------|--------------|--------------|---------|--------------|--------------|
|                                               | %       | Book value   | Fair value   | %       | Book value   | Fair value   |
| Investments:                                  |         |              |              |         |              |              |
| Common stock *                                | 39.5    | \$26 801 463 | \$23 044 892 | 39.3    | \$31 150 748 | \$35 341 431 |
| Securities convertible into common stock      |         |              |              |         |              |              |
| Capital stock *                               | 42.8    | 28 989 903   | 25 728 011   | 37.8    | 29 938 440   | 27 939 494   |
| Debentures and loans                          | 13.0    | 8 835 020    | 9 348 250    | 13.0    | 10 339 343   | 10 756 358   |
| Securities not convertible                    |         |              |              |         |              |              |
| Capital stock                                 | 0.3     | 230 000      | 230 000      | 2.1     | 1 657 453    | 1 180 475    |
| Debentures and loans *                        | 1.4     | 960 050      | 920 050      | 1.8     | 1 425 208    | 1 425 207    |
| Refundable contributions                      | 3.0     | 2 000 000    | 2 750 000    | 4.7     | 3 750 000    | 3 250 000    |
| Advances under the Research Promotion Program |         |              |              | 1.3     | 1 000 028    | 1 000 028    |
|                                               | 100.0 % | \$67 816 436 | \$62 021 203 | 100.0 % | \$79 261 220 | \$80 892 993 |

\* For categories of investments whose book value is higher than their fair value, management foresees recovering their book value. To support its judgement, the important elements analyzed include, notably, agreements in principle, business plans, analysis of transactions and comparable businesses and cash flow estimates.

**b) Credit risk**

The Société is exposed to the economic conditions affecting the sectors in which it carried out its activities. At March 31, 2005, the book value of investments broke down as follows:

|                               | 2005 | 2004 |
|-------------------------------|------|------|
| Life sciences                 | 29%  | 29%  |
| Advanced applied technologies | 29   | 32   |
| Information technologies      | 35   | 33   |
| Other venture capital funds   | 7    | 6    |

During the fiscal year, the Société valued its investments. It established its sustained value decreases based on the risk presented by the enterprises. According to management, there was no significant unspotted risk as at March 31, 2005. Further, the provisions and long-term value decreases recorded at March 31, 2005 are representative of the situation of the enterprises in question.

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**13. FINANCIAL INSTRUMENTS (cont'd)**
**c) 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-<br>free  | Fixed<br>rate **    | Total               |
|----------------------------------------------------------------------------------------|--------------------|---------------------|---------------------|
| Debenture and convertible loans in<br>common stock<br>maturing from 2004 to 2012       |                    | \$6 663 422         | \$6 663 422         |
| on demand                                                                              |                    | 1 825 314           | 1 825 314           |
| Debtentures and non-convertible loans<br>in common stock<br>maturing from 2006 to 2008 |                    | 470 050             | 470 050             |
| on demand                                                                              |                    | 200 000             | 200 000             |
| Refundable contributions *                                                             |                    |                     |                     |
| maturing in 2011                                                                       | \$1 500 000        |                     | 1 500 000           |
| Doubtful loans                                                                         |                    |                     |                     |
| convertible                                                                            |                    | 1 141 664           | 1 141 664           |
| non convertible                                                                        | 4 825 888          | 525 329             | 5 351 217           |
|                                                                                        | <u>\$6 325 888</u> | <u>\$10 825 779</u> | <u>\$17 151 667</u> |

\* Contributions are refundable in the form of a royalty on sales.

\*\* Interest rates vary between 7 and 15% and, in certain cases, fees may be payable.

**14. CONTINGENCY**

In May 2005, the Société and certain co-investors were solidarily involved in legal proceedings instituted against on of the portfolio companies, primarily for the payment of damages of up to \$500 000, and questioning the validity of the transaction that led to the company's creation. When these financial statements were being prepared, the Société was unable to evaluate the outcome of this lawsuit and the resulting financial impacts, where applicable.

**15. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES****MANAGEMENT'S REPORT**

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The financial statements of the Société Innovatech Québec et Chaudière-Appalaches were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 the 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 internal audit and investigations department carries out 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 oversees the manner in which management performs its financial reporting duties, and has approved the financial statements for the fiscal year ended March 31, 2005.

The Auditor General of Québec has audited the Société's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Francine Laurent  
President and Chief Executive Officer

Martin Auclair  
Director, Finance and Administration

Québec, June 10, 2005

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**AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Québec et Chaudière-Appalaches as at March 31, 2005 and the statements of results and deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 10, 2005



**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**  
(R.S.Q., c. S-17.5)

**RESULTS AND DEFICIT**  
for the year ended March 31, 2005

|                                                           | <u>2005</u>           | <u>2004</u>          |
|-----------------------------------------------------------|-----------------------|----------------------|
| <b>REVENUE</b>                                            |                       |                      |
| Investment income                                         | \$1 897 812           | \$2 353 344          |
| Gains from disposal of investments                        | 166 464               | 62 295               |
| Interest on short-term investments                        | 118 047               | 156 418              |
| Management fees                                           | <u>110 300</u>        | <u>271 046</u>       |
|                                                           | <u>2 292 623</u>      | <u>2 843 103</u>     |
| <b>EXPENDITURE</b>                                        |                       |                      |
| Operating expenses:                                       |                       |                      |
| Salaries and fringe benefits                              | 972 726               | 952 075              |
| Professional and contractual services                     | 300 810               | 116 304              |
| Rent                                                      | 72 217                | 46 628               |
| Advertising and promotion                                 | 337                   | 15 770               |
| Travelling and business development                       | 68 097                | 110 867              |
| Office expenses                                           | 52 592                | 62 545               |
| Communications                                            | 21 936                | 22 237               |
| Loss on disposal of fixed assets                          | 1 170                 |                      |
| Depreciation of fixed assets                              | <u>26 330</u>         | <u>46 937</u>        |
|                                                           | <u>1 516 215</u>      | <u>1 373 363</u>     |
| Investment expenses:                                      |                       |                      |
| Loss on investments                                       | 14 391 555            | 9 786 429            |
| Provision for surety                                      | <u>1 339 930</u>      |                      |
|                                                           | <u>15 731 485</u>     | <u>9 786 429</u>     |
| <b>NET LOSS</b>                                           | (14 955 077)          | (8 316 689)          |
| <b>(DEFICIT) RETAINED EARNINGS,<br/>BEGINNING OF YEAR</b> | <u>(7 323 981)</u>    | <u>992 708</u>       |
| <b>DEFICIT, END OF YEAR</b>                               | <u>\$(22 279 058)</u> | <u>\$(7 323 981)</u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES****BALANCE SHEET**  
as at March 31, 2005

|                                                                    | <u>2005</u>         | <u>2004</u>         |
|--------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                      |                     |                     |
| <b>Current assets</b>                                              |                     |                     |
| Cash on hand                                                       | \$4 978 812         | \$3 959 414         |
| Short-term investments – bank acceptance<br>expiring June 18, 2004 |                     | 2 319 726           |
| Accounts receivable (Note 4)                                       | 11 602              | 427 956             |
| Prepaid expenses                                                   | 5 896               | 5 217               |
|                                                                    | <u>4 996 310</u>    | <u>6 712 313</u>    |
| <b>Investments</b> (Notes 5 and 13)                                | 25 400 000          | 35 962 016          |
| <b>Fixed assets</b> (Note 6)                                       | <u>109 806</u>      | <u>132 791</u>      |
|                                                                    | <u>\$30 506 116</u> | <u>\$42 807 120</u> |
| <b>LIABILITIES</b>                                                 |                     |                     |
| <b>Current liabilities</b>                                         |                     |                     |
| Accounts payable (Note 8)                                          | \$195 244           | \$131 101           |
| Surety payable to a financial institution                          | 1 339 930           |                     |
|                                                                    | <u>1 535 174</u>    | <u>131 101</u>      |
| <b>SHAREHOLDER'S EQUITY</b>                                        |                     |                     |
| Capital stock (Note 9)                                             | 51 250 000          | 50 000 000          |
| Deficit                                                            | <u>(22 279 058)</u> | <u>(7 323 981)</u>  |
|                                                                    | <u>28 970 942</u>   | <u>42 676 019</u>   |
|                                                                    | <u>\$30 506 116</u> | <u>\$42 807 120</u> |
| <b>COMMITMENTS</b> (Note 11)                                       |                     |                     |
| <b>SUBSEQUENT EVENT</b> (Note 12)                                  |                     |                     |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Yvon Lévesque, President  
Ghislain Blanchet, President and Chief Executive Officer

## SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

CASH FLOW  
for the year ended March 31, 2005

|                                                     | 2005           | 2004          |
|-----------------------------------------------------|----------------|---------------|
| <b>OPERATING ACTIVITIES</b>                         |                |               |
| Net loss                                            | \$(14 955 077) | \$(8 316 689) |
| Adjustments for:                                    |                |               |
| Depreciation of fixed assets                        | 26 330         | 46 937        |
| Capitalized interest in investments                 | (550 295)      | (341 004)     |
| Loss on investments                                 | 14 391 555     | 9 786 429     |
| Provision pour caution                              | 1 339 930      |               |
| Loss on disposal of fixed assets                    | 1 170          |               |
| Gains on disposal of investments                    | (166 464)      | (62 295)      |
|                                                     | 87 149         | 1 113 378     |
| Change in non-cash items linked to operations       |                |               |
| Change in receivables                               | 416 354        | (14 023)      |
| Change in prepaid expenses                          | (679)          | 382           |
| Change in payables                                  | 64 143         | (139 643)     |
|                                                     | 479 818        | (153 284)     |
| Cash flows provided by operating activities         | 566 967        | 960 094       |
| <b>INVESTMENT ACTIVITIES</b>                        |                |               |
| Acquisition of fixed assets                         | (4 515)        | (4 588)       |
| Acquisition of investments                          | (6 482 571)    | (13 901 505)  |
| Recovery of investments                             | 3 067 291      | 1 538 820     |
| Proceeds from the disposal of investments           | 302 500        | 62 396        |
| Cash flows used for investment activities           | (3 117 295)    | (12 304 877)  |
| <b>FINANCING ACTIVITIES</b>                         |                |               |
| Cash flows provided by financing activities:        |                |               |
| Capital stock issue                                 | 1 250 000      | 9 000 000     |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>        | (1 300 328)    | (2 344 783)   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b> | 6 279 140      | 8 623 923     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>       | \$4 978 812    | \$6 279 140   |
| Cash on hand                                        | \$4 978 812    | \$3 959 414   |
| Short-term investment                               | 2 319 726      |               |
| Cash and cash equivalents, end of year              | \$4 978 812    | \$6 279 140   |

The notes are an integral part of these financial statements.

**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

**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). The Société's mission is 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 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, is not subject to Québec or Canadian income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Cash and cash equivalents**

The Société's policy consists in presenting 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.

**Short-term investments**

Short-term investments are recorded at their fair value.

**Investments**

Investments are recorded at their fair value, i.e. the estimated exchange value agreed on by competent parties acting freely under fully competitive conditions. Investments include listed and unlisted shares, debentures, loans and refundable contributions. The fair value is established using evaluation techniques that are recognized on the market, including primarily reference to an offer to purchase or transactions with an unrelated third party, capitalization of profits before interest, taxes and representative amortization and capitalization of cash flows. The significant assumptions made in determining the fair value may include discount or capitalisation rate, the bank rate, rates of return and weighting of earnings forecasts.

**Fixed assets**

Fixed assets are recorded at cost and depreciated over their useful lives on a straight-line basis:

|                           |          |
|---------------------------|----------|
| Leasehold improvements    | 10 years |
| Furniture and equipment   | 6 years  |
| Data processing equipment | 3 years  |

**3. CHANGE IN AN ACCOUNTING POLICY**

As of the current fiscal year, the Société anticipatedly adopted accounting guideline AcG-18 governing investment corporations and stipulating that investments must be posted at their fair value.

Previous fiscal years presented investments at net book value, i.e. cost minus any permanent decline in value and any provision for doubtful loans, where applicable.

**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**3. CHANGE IN AN ACCOUNTING POLICY (cont'd)**

This change was applied prospectively and increased (decreased) the following financial statement items for the fiscal year ended March 31, 2005:

|                         |             |
|-------------------------|-------------|
| Investments             |             |
| Common shares           | \$1 650 157 |
| Preferred shares        | (3 630 431) |
| Debentures and loans    | (97 910)    |
| Refundable contribution | 120 570     |
| Loss on investments     | 1 957 614   |

**4. RECEIVABLE**

|                                               | 2005            | 2004             |
|-----------------------------------------------|-----------------|------------------|
| Interest receivable on investments            |                 | \$351 072        |
| Interest receivable on short-term investments |                 | 13 265           |
| Other                                         | \$11 602        | 63 619           |
|                                               | <u>\$11 602</u> | <u>\$427 956</u> |

**5. INVESTMENTS**

|                                                                    | Fair value<br>2005  | Fair value<br>2004  | Net book<br>value<br>2004 |
|--------------------------------------------------------------------|---------------------|---------------------|---------------------------|
| Common shares                                                      |                     |                     |                           |
| Private corporations                                               | \$8 197 903         | \$6 954 881         | \$5 624 079               |
| Public corporation                                                 | 1 156 597           | 1 669 355           | 1 350 000                 |
| Securities convertible into common shares                          |                     |                     |                           |
| Preferred shares                                                   |                     | 200 000             | 200 000                   |
| Debentures and loans (maturing between 2005 to 2012)               |                     | 235 350             | 235 350                   |
| Securities not convertible into common shares                      |                     |                     |                           |
| Preferred shares                                                   | 2 082 900           | 3 638 267           | 7 268 698                 |
| Debentures and loans (maturing between 2005 to 2011)<br>(Note 13c) | 12 404 200          | 19 435 979          | 19 533 889                |
| Refundable contribution (maturing in 2010) (Note 13c)              | 1 558 400           | 1 870 570           | 1 750 000                 |
|                                                                    | <u>\$25 400 000</u> | <u>\$34 004 402</u> | <u>\$35 962 016</u>       |

**6. FIXED ASSETS**

|                                         | 2005      |                          |           | 2004      |
|-----------------------------------------|-----------|--------------------------|-----------|-----------|
|                                         | Cost      | Accumulated depreciation | Net       | Net       |
| Leasehold improvements                  | \$147 330 | \$55 355                 | \$91 975  | \$106 707 |
| Furniture and equipment                 | 49 029    | 33 548                   | 15 481    | 23 087    |
| Equipment and data processing equipment | 94 028    | 91 678                   | 2 350     | 2 997     |
|                                         | \$290 387 | \$180 581                | \$109 806 | \$132 791 |

**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**7. BANK LOAN**

A bank borrowing in the amount of \$2 000 000 was authorized at the prime rate and guaranteed by the moveable hypothec without delivery on the universality of tangible and intangible moveables, present and future where they were found. At March 31, 2005, the borrowing of this balance was of 4.25%.

**8. PAYABLES**

|                                            | <u>2005</u>      | <u>2004</u>      |
|--------------------------------------------|------------------|------------------|
| Supplies and accrued costs                 | \$195 244        | \$128 653        |
| Owing to Société Innovatech Grand Montréal |                  | <u>2 448</u>     |
|                                            | <u>\$195 244</u> | <u>\$131 101</u> |

**9. CAPITAL STOCK**

The Act respecting the Société Innovatech Régions ressources is designed to enable the Société to survive and to be endowed with an authorized partnership fund of \$100 000 000.

|                                                        | <u>2005</u>         | <u>2004</u>         |
|--------------------------------------------------------|---------------------|---------------------|
| Authorized:                                            |                     |                     |
| 1 000 000 common shares with a par value of \$100 each |                     |                     |
| Issued and paid:                                       |                     |                     |
| 512 500 common shares (500 000 common shares in 2004)  | <u>\$51 250 000</u> | <u>\$50 000 000</u> |

The shares of the Société's partnership fund belong to the State and are allocated to the Minister of Finance.

During the fiscal year, the Société issued 12 500 common shares for an amount of \$1 250 000 in cash (in 2004: 90 000 common shares for an amount of \$9 000 000 in cash).

**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 either joint control or significant influence by it. Capital stock issued, as disclosed in the financial statements, is recorded at exchange value. The Société did not carry out 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 INNOVATECH RÉGIONS RESSOURCES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**11. COMMITMENTS**

As at March 31, 2005, the Société's commitments with respect to financial support for initiatives were as follows:

|                                              | 2005               | 2004               |
|----------------------------------------------|--------------------|--------------------|
| Common shares                                | \$200 000          | \$2 774 982        |
| Securities convertible into common shares    |                    |                    |
| Preferred shares                             |                    | 333 333            |
| Debentures and loans                         | 2 420 000          | 5 555 321          |
| Advances under research development projects | 75 000             | 175 000            |
| Caution                                      |                    | 100 000            |
|                                              | <u>\$2 695 000</u> | <u>\$8 938 636</u> |

Commitments represent investments authorized by the Société's board of directors and not disbursed as at March 31, 2005. Due to certain circumstantial events, it might not be possible to pay out these amounts.

**12. SUBSEQUENT EVENT**

Under Gouvernement du Québec Order-in-Council 684-2005, on July 4, 2005, the Société acquired 26 500 000 shares in a limited partnership at a price equivalent to the fair value of the shares ceded in exchange, i.e. \$26 500 000. These assets correspond to almost the entire portfolio of the Société, i.e. \$24 965 310 plus \$1 534 690 in cash.

The proceeds from the sale could, if applicable, be subject to certain adjustments. Firstly, they could be increased to a maximum of \$1 300 000 on the release of a surety assumed by the Société issued June 21, 2005. The second adjustment concerns the fair value of certain investments in the portfolio to be reassessed in spring 2006, which might reduce the proceeds of the sale by up to \$2 200 000. If applicable, adjustments will be treated by adjusting the Société's number of shares in the limited partnership.

Further, under an agreement, current Société employees will be transferred to one of the limited partnership's special partners on July 4, 2005.

**13. FINANCIAL INSTRUMENTS**
**a) Fair value**

The short-term book value of assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

**b) Credit risk**

The Société is exposed to the economic conditions affecting the sectors in which it carried out its activities. Investments are as follows:

|                                                 | 2005 | 2004 |
|-------------------------------------------------|------|------|
| Biotechnology and life sciences                 | 9%   | 11%  |
| Information technologies and telecommunications | 3%   | 2%   |
| Industrial technologies                         | 88%  | 87%  |

**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**13. FINANCIAL INSTRUMENTS (cont'd)****c) 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:

| Notional principal amount                                | Interest-<br>free  | Fixed rate<br>until<br>maturity | Total               |
|----------------------------------------------------------|--------------------|---------------------------------|---------------------|
| Debtures and loans non convertible into<br>common shares | \$590 714          | \$20 533 581                    | \$21 124 295        |
| Contribution repayable                                   | 1 500 000          |                                 | 1 500 000           |
|                                                          | <u>\$2 090 714</u> | <u>\$20 533 581</u>             | <u>\$22 624 295</u> |

- Mean effective interest rate: 12.1%.
- Interest rates vary between 8% and 16% and, in certain cases, fees may be payable.

**14. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.



**SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES****MANAGEMENT'S REPORT**

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The financial statements of the Société Innovatech Régions ressources were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 the auditing standards that are generally accepted in Canada. 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 element concerning his audit.

Ghislain Blanchet  
President and Chief Executive Officer

Québec, August 26, 2005

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**AUDITOR'S REPORT**

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To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Régions ressources as at March 31, 2005 and the statements of results and deficit and cash flows for the period 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.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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, with the exception of the change in accounting policy for investments disclosed 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, August 26, 2005

**SOCIÉTÉ NATIONALE DE L'AMIANTE**  
(R.S.Q., c. S-18.2)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                       | <u>2005</u>       | <u>2004</u>       |
|---------------------------------------|-------------------|-------------------|
| <b>INCOME</b>                         |                   |                   |
| Balancing subsidy                     | (8)               | 130               |
| Interest                              | 15                | 12                |
| Reimbursement of capital tax          | <u>23</u>         | <u>          </u> |
|                                       | <u>30</u>         | <u>142</u>        |
| <b>CHARGE</b>                         |                   |                   |
| Administrative expenses               | 288               | 277               |
| Professional services                 | <u>247</u>        | <u>98</u>         |
|                                       | <u>535</u>        | <u>375</u>        |
| <b>LOSS BEFORE THE FOLLOWING ITEM</b> | (505)             | (233)             |
| Loss on drop in value of investment   | <u>          </u> | <u>(629)</u>      |
| <b>NET LOSS</b>                       | (505)             | (862)             |
| <b>DEFICIT, BEGINNING OF YEAR</b>     | <u>(157 046)</u>  | <u>(156 184)</u>  |
| <b>DEFICIT, END OF YEAR</b>           | <u>(157 551)</u>  | <u>(157 046)</u>  |

**SOCIÉTÉ NATIONALE DE L'AMIANTE****CONSOLIDATED BALANCE SHEET**

as at March 31, 2005

(in thousands of dollars)

|                                                          | <u>2005</u>      | <u>2004</u>      |
|----------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                            |                  |                  |
| <b>Current assets</b>                                    |                  |                  |
| Cash on hand                                             | 86               | 169              |
| Short-term investments (Note 3)                          | 817              | 200              |
| Accounts receivable                                      | 3                |                  |
| Balancing subsidy                                        |                  | 130              |
| Portion of investments feasible within one year (Note 4) |                  | <u>850</u>       |
|                                                          | <u>906</u>       | <u>1 349</u>     |
| <br><b>LIABILITIES</b>                                   |                  |                  |
| <b>Current liabilities</b>                               |                  |                  |
| Accounts payable                                         | <u>88</u>        | <u>26</u>        |
| <br><b>SHAREHOLDER'S EQUITY</b>                          |                  |                  |
| Capital stock (Note 5)                                   | 158 369          | 158 369          |
| Deficit                                                  | <u>(157 551)</u> | <u>(157 046)</u> |
|                                                          | <u>818</u>       | <u>1 323</u>     |
|                                                          | <u>906</u>       | <u>1 349</u>     |

**CONTINGENCIES (Note 6)**

On behalf of the Board of Directors,  
Benoît Cartier, Director

**SOCIÉTÉ NATIONALE DE L'AMIANTE**

CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                         | <u>2005</u>       | <u>2004</u>       |
|---------------------------------------------------------|-------------------|-------------------|
| <b>OPERATING ACTIVITIES</b>                             |                   |                   |
| Net loss                                                | (505)             | (862)             |
| Adjustments for:                                        |                   |                   |
| Loss on drop of value of investment                     | <u>629</u>        | <u>629</u>        |
|                                                         | (505)             | (233)             |
| Net change in non-liquid assets working capital items   | <u>189</u>        | <u>222</u>        |
|                                                         | (316)             | (11)              |
| <b>INVESTMENT ACTIVITIES</b>                            |                   |                   |
| Encashment of investment                                | <u>850</u>        | <u>850</u>        |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | 534               | (11)              |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <u>369</u>        | <u>380</u>        |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>           | <u><u>903</u></u> | <u><u>369</u></u> |

The cash and cash equivalents comprise the cash on hand and short-term investments.

**SOCIÉTÉ NATIONALE DE L'AMIANTE****NOTES TO FINANCIAL STATEMENTS**

for the year ended March 31, 2005

(in thousands of dollars)

**1. ENTERPRISE 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. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been drawn up according to the accounting principles that are generally recognized in Canada 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%).

**Continuing operations**

The financial statements of the Société were prepared using accounting principles applicable to an operative enterprise.

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.

If the continuing operations assumption is not suitable for the present financial statements, adjustments will have to be made to the book value assigned to the assets and liabilities, revenue and expenditure shown and classifications used in the balance sheet.

**Allowance for loss on investments**

The allowance for loss on investments is established on the basis of individual investments and is calculated according to the terms of the contracts between the parties.

**Government subsidies**

The Gouvernement du Québec provides financial assistance to enable the Société to meet its financial obligations and those of its subsidiary.

The amount of this financial assistance is entered under "deficiency grant" in the statement of income and is used to finance the Société's operating loss.

**Use of estimates**

Preparation of financial statements in keeping with the accounting principles generally accepted in Canada requires management to use estimates and assumptions that affect the assets and liabilities posted, presentation of potential assets and liabilities posted at the date of the financial statements, and proceeds and charges posted during the fiscal year. The real results might differ from the estimates.

**Benefits tax**

Since all of the Société's shares are held by the Gouvernement du Québec, the Société nationale de l'amiante is exempt from benefits tax, as is its wholly-owned subsidiary.

**Cash and cash equivalents**

The Société's cash and cash equivalents comprise cash and easily convertible financial instruments maturing within three months or less.

**SOCIÉTÉ NATIONALE DE L'AMIANTE**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005  
(in thousands of dollars)

**3. SHORT-TERM INVESTMENTS**

|                                                                                                   | 2005       | 2004       |
|---------------------------------------------------------------------------------------------------|------------|------------|
| Commercial paper, bearing interest at rate of 2.25%,<br>maturing on May 2, 2005                   | 50         |            |
| Commercial paper, bearing interest at rate of 2.43%<br>(1.6% in 2004), maturing on April 11, 2005 | 200        | 200        |
| Commercial paper, bearing interest at rate of 2.30%,<br>maturing on April 18, 2005                | 199        |            |
| Commercial paper, bearing interest at rate of 1.95%,<br>maturing on May 9, 2005                   | 368        |            |
|                                                                                                   | <u>817</u> | <u>200</u> |

**4. INVESTMENTS**

|                                                                                      | 2005       | 2004       |
|--------------------------------------------------------------------------------------|------------|------------|
| Preferred Category C shares in Les Technologies<br>Fibrox Ltée                       | 500        | 500        |
| Other investments                                                                    |            |            |
| Note receivable, received during the fiscal year                                     | <u>500</u> | <u>850</u> |
|                                                                                      |            | 1 350      |
| Provision for lasting drop in value of tickets<br>receivable and of preferred shares | <u>500</u> | <u>500</u> |
|                                                                                      |            | 850        |
| Portion that is feasible within one year                                             | <u></u>    | <u>850</u> |
|                                                                                      | <u></u>    | <u></u>    |

**5. CAPITAL STOCK**

Authorized  
250 000 common shares with a par value of \$1 000 each

|                       | 2005           | 2004           |
|-----------------------|----------------|----------------|
| Issued                |                |                |
| 158 369 common shares | <u>158 369</u> | <u>158 369</u> |

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.

## **SOCIÉTÉ NATIONALE DE L'AMIANTE**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
for the year ended March 31, 2005  
(in thousands of dollars)

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### **6. CONTINGENCIES**

#### **Cases before the securities commissions**

Complaints were filed with the Ontario Securities Commission and the Commission des valeurs mobilières du Québec by a committee comprised of a number of minority shareholders of Asbestos Corporation Limited. The complaints allege that the SNA should have offered to buy all Asbestos Corporation Limited shareholders' stock on terms similar to those offered to General Dynamics Corporation (GD) for the purchase of shares in the private enterprise Mines SNA Inc., which controlled Asbestos Corporation Limited.

In a decision handed down on June 13, 2003, the Commission des valeurs mobilières du Québec concluded that there was no evidence showing that the SNA had failed to respect a provision of the Québec Securities Act and its regulations and that, consequently, there was no reason to grant the request of the minority shareholders.

The minority shareholders appealed this decision before the Court of Québec, which heard the case in June 2004. The Court's decision was still pending at the date these financial statements were drawn up.

In July 1994, the Ontario Securities Commission rejected the claim filed by the minority shareholders of Asbestos Corporation Limited. This decision was appealed before various courts and finally in a decision handed down on June 7, 2001; the Supreme Court dismissed the minority shareholders' appeal and restored the Ontario Securities Commission's decision, thereby closing the file.

#### **Class action**

In May 1988, the Société and several other respondents were summoned before the Supreme Court of Ontario by a number of minority shareholders in Asbestos Corporation Limited with regard to damages and the redemption of their shares on terms similar to those offered to General Dynamics Corporation for the purchase of shares in Mines SNA Inc. This proceeding, which was still in the preliminary stage and had been inactive since 1988, was revived in 2003 by minority shareholders.

Attorneys SNA informed the Court of their intention to present preliminary means to try to have the proceeding refused at this stage.

#### **Petition before the Québec Superior Court**

In June 1995, the minority shareholders in Asbestos Corporation Limited filed a petition with the Québec Superior Court under section 241 of the Canada Business Corporations Act. They are claiming redress for the alleged oppression suffered at the hands of the Société nationale de l'amiante, in particular, which is a respondent in the case.

In response to a motion for dismissal filed by the Société, the court granted a suspension on the shareholders' petition until a final judgement is rendered in the other proceedings before the Québec and Ontario securities commissions (*supra*).

### **7. FINANCIAL INSTRUMENTS**

The fair value of cash, short-term investments, accounts receivable and accounts payable corresponds approximately to their book value given that they mature in the short term.

The fair value of preferred shares corresponds to their book value, namely zero value.

**SOCIÉTÉ NATIONALE DE L'AMIANTE**

## AUDITORS' REPORT

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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, 2005 and the consolidated statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. Our responsibility consists in expressing an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that we plan and perform an 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. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with the accounting principles that are generally accepted in Canada.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.  
Chartered Accountants

April 12, 2005



**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**  
(R.S.Q., c. S-18.2.1)

REVENUE AND EXPENSES  
for the year ended March 31, 2005  
(in thousands of dollars)

|                                                 | <u>2005</u>    | <u>2004</u>    |
|-------------------------------------------------|----------------|----------------|
| <b>REVENUE</b>                                  |                |                |
| Management fees (Note 3)                        | 396            | 512            |
| Financial revenue                               |                |                |
| Gouvernement du Québec                          | 164 089        | 176 040        |
| Municipalities                                  | <u>17 670</u>  | <u>19 445</u>  |
|                                                 | <u>182 155</u> | <u>195 997</u> |
| <br><b>EXPENSES</b>                             |                |                |
| Salaries and social benefits (Notes 4 and 11)   | 215            | 261            |
| Transportation and communications               | 23             | 33             |
| Information system                              | 61             | 73             |
| Professional, administrative and other services | 90             | 153            |
| Repairs and maintenance                         | 3              |                |
| Rental                                          | 38             | 35             |
| Supplies                                        | 3              | 9              |
| Financial expenses (Note 5)                     | <u>181 722</u> | <u>195 433</u> |
|                                                 | <u>182 155</u> | <u>195 997</u> |

## SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

BALANCE SHEET  
as at March 31, 2005  
(in thousands of dollars)

|                                                                       | 2005             | 2004             |
|-----------------------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                                         |                  |                  |
| <b>Current assets</b>                                                 |                  |                  |
| Cash                                                                  | 60               | 96               |
| Deposit in trust                                                      | 950              |                  |
| Accounts receivable                                                   |                  |                  |
| Gouvernement du Québec                                                | 56 977           | 60 372           |
| Municipalities                                                        | 5 868            | 5 993            |
| Other                                                                 | 3                | 110              |
| Receivables from the Gouvernement du Québec (Note 6)                  | 108 368          | 56 836           |
| Receivables from the municipalities (Note 6)                          | 24 730           | 23 640           |
| Prepaid expenses                                                      | 28               | 66               |
|                                                                       | <u>196 984</u>   | <u>147 113</u>   |
| <b>Long-term receivables from the Gouvernement du Québec (Note 6)</b> | 2 451 762        | 2 562 267        |
| <b>Long-term receivables from the municipalities (Note 6)</b>         | 229 393          | 257 922          |
| <b>Unbilled completed works</b>                                       | <u>3 098</u>     | <u>2 695</u>     |
|                                                                       | <u>2 881 237</u> | <u>2 969 997</u> |
| <b>LIABILITIES</b>                                                    |                  |                  |
| <b>Current liabilities</b>                                            |                  |                  |
| Account payable and accrued liabilities (Note 5)                      | 63 951           | 70 032           |
| Current portion of long-term debt (Note 8)                            | <u>133 099</u>   | <u>80 475</u>    |
|                                                                       | 197 050          | 150 507          |
| <b>Accounts payable and accrued liabilities on completed works</b>    | 2 480            | 2 574            |
| <b>Long-term debt (Note 8)</b>                                        | 2 680 689        | 2 814 173        |
| <b>Deferred revenue</b>                                               | 1 006            | 1 366            |
| <b>Other liabilities items</b>                                        | <u>12</u>        | <u>1 377</u>     |
|                                                                       | <u>2 881 237</u> | <u>2 969 997</u> |

## CONTINGENCIES (Note 9)

On behalf of the Board,  
Maurice Masse  
Marc Pinsonnault

**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**
**CASH FLOWS**

for the year ended March 31, 2005

(in thousands of dollars)

|                                                                             | <u>2005</u>      | <u>2004</u>      |
|-----------------------------------------------------------------------------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                                 |                  |                  |
| Cash inflow – management fees                                               | 36               | 128              |
| Cash inflow – financial revenue                                             | 185 205          | 202 547          |
| Cash outflow – interest paid                                                | (185 920)        | (197 952)        |
| Cash outflow – other financial expenses                                     | (3 190)          | (4 315)          |
| Cash outflow –administration expenses                                       | <u>(1 174)</u>   | <u>(318)</u>     |
| Cash flows related to operating activities                                  | <u>(5 043)</u>   | <u>90</u>        |
| <b>INVESTING ACTIVITIES</b>                                                 |                  |                  |
| Amount charged to long-term receivables<br>and unbilled completed works     | (1 427)          | (278)            |
| Receipts on long-term receivables                                           | <u>87 436</u>    | <u>172 102</u>   |
| Cash flows related to investing activities                                  | <u>86 009</u>    | <u>171 824</u>   |
| <b>FINANCING ACTIVITIES</b>                                                 |                  |                  |
| Repayment of accounts payable and accrued<br>liabilities on completed works | (94)             | (1 143)          |
| Long-term debt                                                              | 266 452          | 567 845          |
| Repayment of long-term debt                                                 | <u>(347 360)</u> | <u>(739 869)</u> |
| Cash flows related to financing activities                                  | <u>(81 002)</u>  | <u>(173 167)</u> |
| <b>DECREASE IN CASH</b>                                                     | (36)             | (1 253)          |
| <b>CASH AT BEGINNING</b>                                                    | <u>96</u>        | <u>1 349</u>     |
| <b>CASH AT THE END</b>                                                      | <u><u>60</u></u> | <u><u>96</u></u> |

**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

(in thousands of dollars)

**1. IDENTIFICATION, OBJECTIVES AND FINANCING**

The Société québécoise d'assainissement des eaux, a corporation within the meaning of the Civil Code constituted by special act (L.R.Q., chapter S-18.2.1) has among others the following objectives:

- to design, construct, improve, enlarge, put in operation, finance or operate water purification works for the needs of municipalities or to carry out rehabilitation works on municipal sewerage systems;
- to carry out studies in respect to the rehabilitation of municipal sewerage systems;
- to carry out other studies in matters of sewerage and water purification;
- to finance development works on the beds, including the banks or shores and the land bordering thereon, of lakes or watercourses;
- to finance works which control the water-level of lakes or watercourses;
- to design, construct, improve, enlarge, put in operation or finance sewerage or watery systems or drinking water treatment installations for the needs of the territory chosen by the Government and located on the North Coast of the Gulf of St. Lawrence;
- to export its expertise in water resources engineering acquired in Québec, mainly by promoting, providing goods and services, and by encouraging the development of the industrial and technological potential of Québec in this field;
- to act as an adviser to municipalities in the construction and operation of water purification works;
- to provide technical and professional management assistance to municipalities for the construction of water purification works;
- to develop projects for the transfer and dissemination of new technologies relating to water purification and drinking water treatment and, with the authorization of the Ministère des Affaires municipales et des Régions to carry out those projects.

The Société québécoise d'assainissement des eaux is a governmental corporation which is non-profit oriented.

The Société bills the Gouvernement du Québec on behalf of municipalities and the municipalities for studies and water purification and watery and sewerage works it executes and for the financing of some works realized by municipalities.

The Société retains ownership of the works until they are handed over to the municipalities. These works are handed over when definitive delivery procedures of treatment plants are completed even though other costs may be incurred.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Société have been prepared by management using the generally accepted accounting principles in Canada. These statements include amounts based on best judgements and estimates.

**Management fees**

Management fees are established based on a percentage of the cost of water purification, sewerage, watery and other works.

- Billing

Management fees are billed in relation to the execution of the Société's mandate which covers the period of works completion as well as the period of debt management and financing related to these works.

## SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

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## 2. ACCOUNTING POLICIES (cont'd)

### Management fees (cont'd)

#### - Billing (cont'd)

Management fee revenues for water purification works are billed as follows:

- In relation to expenses incurred for studies;
- According to a uniform allocation over the estimated completion period (term basis) for the works.

For other works, including watery and sewerage, management fee revenues are billed based on a percentage of the cost of works completed.

#### - Deferred revenue

The Société is unable to accurately establish management fees earned yearly over the complete duration of its mandate.

Therefore, the Société transfers to deferred revenue the annual excess of revenue over expenses or, deducts from deferred revenue an amount equal to the annual excess of expenses over revenue in order to cover this deficiency.

### Long-term receivables

Long-term receivables, to be collected from the Gouvernement du Québec on behalf of municipalities and from municipalities, include expenses charged to water purification, watery and sewerage works, and the financing of the watercourse bank development works and other works realized by municipalities, net of reimbursements received.

### Other liabilities items

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.

### Sinking fund for the long-term debt

The Société created an interest-bearing amortization fund for the reimbursement of the long-term debt from the periodic remittals of principal from the municipalities. The sums are used to temporarily reduce short-term borrowings.

### Currency conversion

The long-term debts issued in foreign currency are converted in Canadian dollars at the rate of the financial instruments for hedging a foreign exchange risk.

### Pension plan

The accounting of the defined contribution plan is applied to governmental multiemployer defined benefit plan, taking into account that the Société doesn't have enough information to apply the accounting of the regimes with definite services

**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**

## NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

**3. MANAGEMENT FEES**

|                              | 2005       | 2004       |
|------------------------------|------------|------------|
| Management fees billed       | 36         | 128        |
| Transfer to deferred revenue | 360        | 384        |
|                              | <u>396</u> | <u>512</u> |

**4. SALARIES AND SOCIAL BENEFITS**

Wages paid to two employees reporting to the Ministère des Affaires municipales et des Régions within the context of services provided free of charge to the Société, are not reflected in the value of this item.

**5. FINANCIAL EXPENSES**

|                                                                             | 2005           | 2004           |
|-----------------------------------------------------------------------------|----------------|----------------|
| Interest on bonds and notes payable                                         | 178 254        | 185 362        |
| Amortization of Gouvernement du Québec<br>long-term debt (premium) discount | (1 318)        | (967)          |
| Cost of debt guaranteed by the government                                   | 1 841          | 3 190          |
| Interest on bank loans                                                      | 2 945          | 7 848          |
|                                                                             | <u>181 722</u> | <u>195 433</u> |

The interest paid for the fiscal year relative to the loans contracted with the financing fund of the Gouvernement du Québec amount for \$129 070 093 (2004: \$119 311 150). As at March 31, 2005, the accrued interest related to these loans and included in accounts payable and accrued liabilities amount to \$48 976 421 (2004 : \$44 686 712).

**6. LONG-TERM RECEIVABLES**

|                        | 2005             | 2004             |
|------------------------|------------------|------------------|
| Gouvernement du Québec | 2 560 130        | 2 619 103        |
| Current portion        | 108 368          | 56 836           |
|                        | <u>2 451 762</u> | <u>2 562 267</u> |
| Municipalities         | 254 123          | 281 562          |
| Current portion        | 24 730           | 23 640           |
|                        | <u>229 393</u>   | <u>257 922</u>   |

**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**6. LONG-TERM RECEIVABLES (cont'd)**

The interest rate on long-term receivables is the same as the one the Société pays on its long-term debt. Receivables mature on the following terms:

Water purification studies:

|                                       |          |
|---------------------------------------|----------|
| Municipalities                        | 5 years  |
| Gouvernement du Québec                | 25 years |
| Studies and watery and sewerage works | 10 years |
| Water purification works              |          |
| Municipalities                        | 20 years |
| Gouvernement du Québec                | 25 years |

The municipalities reimburse their accounts payable to the Société on every interest payment.

The Government reimburses its accounts payable, when the long-term debt matures, for an amount equal to the unfinanced portion of its accounts payable.

**7. BANK LOAN**

As at March 31, 2005, the Société had an authorized bank line of credit of \$500 000 through a demand loan agreement which foresees an interest charge of prime rate. This line of credit is renewable annually.

**8. LONG-TERM DEBT**

Bonds and notes payable (a) (b)

| Maturity        | Canadian dollars | Eurodollars | 2005      | 2004      |
|-----------------|------------------|-------------|-----------|-----------|
| 2005            |                  |             |           | 269 833   |
| 2006            | 244 214          | 143 788     | 388 002   | 388 002   |
| 2007            | 236 334          | 174 446     | 410 780   | 410 780   |
| 2008            | 206 900          |             | 206 900   | 206 900   |
| 2009            | 114 825          |             | 114 825   | 114 825   |
| 2010            | 307 355          |             | 307 355   |           |
| 1 to 5 years    | 1 109 628        | 318 234     | 1 427 862 | 1 390 340 |
| 6 to 10 years   | 1 370 501        |             | 1 370 501 | 1 361 356 |
| 11 to 20 years  |                  |             |           | 50 000    |
|                 | 2 480 129        | 318 234     | 2 798 363 | 2 801 696 |
| Bank loan (c)   |                  |             | 15 425    | 92 952    |
|                 |                  |             | 2 813 788 | 2 894 648 |
| Current portion |                  |             | 133 099   | 80 475    |
|                 |                  |             | 2 680 689 | 2 814 173 |

- a Principal and interests 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 \$2 430 129 103 (2004: \$2 163 629 103) was contracted with the financing fund of the Gouvernement du Québec.

**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX****NOTES TO FINANCIAL STATEMENTS (cont'd)**

March 31, 2005

(in thousands of dollars)

**8. LONG-TERM DEBT (cont'd)**

- b Principal and interests on bonds and notes issued in foreign currencies are converted into Canadian and covered by swap agreements.

Swaps agreements are made directly with the Gouvernement du Québec and the risks related to these swaps are guaranteed by the Gouvernement du Québec.

Inflows and outflows related to these transactions are in Canadian dollars.

- c These bank loans, which are not guaranteed by the Gouvernement du Québec, will be financed on a long-term basis upon completion of the financing terms. They carried, on average, an interest rate of 149 basis points lower than the Canadian charter banks prime rate. An amount of \$15 425 000 (2004: \$5 400 000) was contracted with the financing fund of the Gouvernement du Québec

The total sinking fund available for reimbursement of the long-term debt is \$67 612 916 as March 31, 2005 (2004: \$56 128 451). These funds have been used to reduce temporarily the bank loans.

The interest rates on bonds and notes presented in the following chart include the interest rate contracted on debts, discounts and all cost related to the issues.

| Maturity         | Canadian<br>dollars | Eurodollars | 2005                | 2004                |
|------------------|---------------------|-------------|---------------------|---------------------|
|                  |                     |             | Weighted<br>average | Weighted<br>average |
| 1 to 5 years     | 5.75                | 8.44        | 6.35                | 7.12                |
| 6 to 10 years    | 5.62                |             | 5.62                | 5.66                |
| 11 to 20 years   |                     |             |                     | 10.25               |
| Weighted average | 5.68                | 8.44        | 5.99                | 6.47                |

**9. CONTINGENCIES**

As at March 31, 2005, claims and lawsuits from various suppliers amount to \$10.4 millions. The Société contests these litigations ensuing from works execution contracts. The Société's legal counsel is of the opinion that neither the possible outcome nor the amount of possible settlement, if any, can be foreseen. However, a provision for claims payable has been estimated by the Société's management. This provision is presented in the accounts payable and accrued liabilities on completed works. Any amount the Société will have to disburse to settle these litigations will be billed to the Gouvernement du Québec on behalf of the municipalities and to the municipalities.

**10. 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 either joint control, or significant influence by the Gouvernement du Québec. The Société 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 and they are measured at exchange value.



## SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

### NOTES TO FINANCIAL STATEMENTS (cont'd)

March 31, 2005

(in thousands of dollars)

#### 11. PENSION PLANS

The Société employees contribute to the Government and Public Employees Retirement Plan (RREGOP) and Senior Management Personnel Pension Plan (RRAS). These are multiemployer defined benefit plans and include guaranteed payments upon retirement and death.

The Société contributions charged to the year-end statement amount for \$7 365 (2004: \$3 931). The liability of the Société towards these government plans is restricted to its contributions as an employer.

#### 12. FINANCIAL INSTRUMENTS

##### FAIR VALUE OF FINANCIAL INSTRUMENTS

##### Long-term debt

The fair market value of long-term debt of \$2 798 363 573 (2004: \$2 801 695 973) at March 31, 2005 amount to \$3 028 658 978 (2004: \$3 105 478 345) to reflect current market rates for similar securities and includes fair value of derived financial instruments

The temporary loans are financial instruments whose fair value approximates their carrying value of \$15 425 000 (2004: \$92 952 000) at March 31, 2005 due to their short-term maturity.

##### Long-term receivables

The fair value of long-term receivables approximates value of the long-term debt of \$3 029 000 000 (2004: \$3 105 000 000), as conditions of repayment are equivalent to those of long-term debt.

##### Other current assets and liabilities

Cash and equivalents, accounts receivable, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

##### Derivative financial instruments

These financial instruments are contracts whose fair value fluctuate in function of subjacent security value and do not require holding or remittance of this one. The Société uses swap agreements with the Gouvernement du Québec as protection against the risk of fluctuating exchange rates. Swaps constitute an operation through which two parties agree to exchange financial flows in keeping with predetermined terms and conditions providing for a nominal reference amount and a time period.

|                               | 2005       |           |               | 2004          |
|-------------------------------|------------|-----------|---------------|---------------|
|                               | Fair value |           |               |               |
| Nominal<br>reference<br>value | Asset      | Liability | Net<br>amount | Net<br>amount |
| Currency rate swaps           | 318 234    | (50 254)  | (50 254)      | (69 780)      |

#### 13. COMPARATIVE FIGURES

Certain figures of 2004 were reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX****MANAGEMENT'S REPORT**

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The financial statements of the Société québécoise d'assainissement des eaux were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 the auditing standards that are generally accepted in Canada. 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.

Maurice Masse  
Chairman of the Board of Directors

Marc Pinsonnault, L.L.B., B.Sc.  
President and Chief Executive Officer

Montréal, May 10, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of Société québécoise d'assainissement des eaux as at March 31, 2005 and the statements of revenue and expenditure, surplus and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its cash flows 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 General of Québec

Québec, May 10, 2005

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**  
(R.S.Q., c. S-22.01)

**REVENUE AND EXPENDITURE AND EQUITY**  
for the year ended March 31, 2005

|                                                                                    | 2005                       | 2004                       |
|------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>REVENUE</b>                                                                     |                            |                            |
| Green tax on tires – Net (Note 4)                                                  | \$22 350 857               | \$21 660 604               |
| Gouvernement du Québec transfers (Note 16)                                         | 1 933 307                  | 2 737 069                  |
| Investment income                                                                  | 2 091 989                  | 2 754 899                  |
| Revenue from industrial organizations (Note 3)                                     | 223 968                    | 127 977                    |
| Revenue from glass recovery assistance program (Note 8)                            | 713 116                    | 808 606                    |
| Revenue on consignment of throw-away<br>containers – Net (Note 5)                  | 3 873 161                  | 4 319 203                  |
| Other                                                                              | 176 961                    | 51 553                     |
|                                                                                    | <u>31 363 359</u>          | <u>32 459 911</u>          |
| <b>PROGRAM EXPENDITURE</b>                                                         |                            |                            |
| Used-tired program (Note 6)                                                        | 17 988 327                 | 18 006 217                 |
| Contributions to the waste management plan development<br>assistance program       | 1 866 666                  | 2 571 666                  |
| Contributions to the financial assistance program for social<br>economy businesses | 150 000                    |                            |
| Other non-refundable contributions (Note 7)                                        | 612 006                    | 573 677                    |
| Contributions to the glass recovery assistance program (Note 8)                    | 671 810                    | 825 363                    |
| Contribution to the loss (recovery) facilities improvement<br>program (Note 17)    | 763 866                    | 1 249 722                  |
| Recovery (loss) on financial interests and loan guarantees                         | 152 400                    | (2 400)                    |
|                                                                                    | <u>22 205 075</u>          | <u>23 224 245</u>          |
| <b>MANAGEMENT EXPENDITURE</b>                                                      |                            |                            |
| Salaries and fringe benefits                                                       | 3 660 182                  | 3 510 986                  |
| Operations (Note 9)                                                                | 1 214 863                  | 1 525 743                  |
| Communications, education and awareness                                            | 677 685                    | 849 831                    |
|                                                                                    | <u>5 552 730</u>           | <u>5 886 560</u>           |
|                                                                                    | <u>27 757 805</u>          | <u>29 110 805</u>          |
| <b>EXCESS REVENUE OVER EXPENDITURE</b>                                             | 3 605 554                  | 3 349 106                  |
| <b>EQUITY, BEGINNING OF YEAR</b>                                                   | <u>28 292 849</u>          | <u>24 943 743</u>          |
| <b>EQUITY, END OF YEAR</b>                                                         | <u><u>\$31 898 403</u></u> | <u><u>\$28 292 849</u></u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)****BALANCE SHEET**  
as at March 31, 2005

|                                                                                     | <u>2005</u>                | <u>2004</u>                |
|-------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                                                       |                            |                            |
| <b>Current assets</b>                                                               |                            |                            |
| Cash on hand                                                                        | \$457 946                  | \$1 003 303                |
| Short-term investments – at cost (Note 10)                                          | 8 708 015                  | 2 745 415                  |
| Accounts receivable (Note 11)                                                       | 9 770 429                  | 11 282 874                 |
| Prepaid expenses                                                                    | 80 630                     | 84 206                     |
|                                                                                     | <u>19 017 020</u>          | <u>15 115 798</u>          |
| <b>Long-term investments</b> (Note 12)                                              | 35 406 920                 | 35 272 291                 |
| <b>Fixed assets</b> (Note 13)                                                       | <u>461 991</u>             | <u>519 197</u>             |
|                                                                                     | <u><u>\$54 885 931</u></u> | <u><u>\$50 907 286</u></u> |
| <b>LIABILITIES</b>                                                                  |                            |                            |
| <b>Current liabilities</b>                                                          |                            |                            |
| Accounts payable (Note 15)                                                          | \$5 312 371                | \$5 089 360                |
| Deferred Gouvernement du Québec transfers (Note 16)                                 | 3 204 392                  | 4 527 063                  |
| Deposit entry on fines (Note 17)                                                    | 2 855 044                  | 3 155 891                  |
| Amounts refundable (Note 18)                                                        | 2 943 827                  | 1 503 261                  |
| Provision for contribution to the recovery facilities improvement program (Note 17) | 457 215                    | 403 085                    |
|                                                                                     | <u>14 772 849</u>          | <u>14 678 660</u>          |
| <b>Allowance for losses on loan guarantees</b> (Note 21)                            | 298 000                    | 145 600                    |
| <b>Allowance for refund of deposits</b>                                             | 5 888 030                  | 5 778 256                  |
| <b>Allowance for payment of recovery incentives</b>                                 | <u>2 028 649</u>           | <u>2 011 921</u>           |
|                                                                                     | <u>22 987 528</u>          | <u>22 614 437</u>          |
| <b>EQUITY</b>                                                                       | <u>31 898 403</u>          | <u>28 292 849</u>          |
|                                                                                     | <u><u>\$54 885 931</u></u> | <u><u>\$50 907 286</u></u> |

On behalf of the Board of Directors,  
Michel Cyr  
Réginald Lavertu

The notes are an integral part of these financial statements.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**
**CASH FLOWS**

for the year ended March 31, 2005

|                                                                              | 2005         | 2004         |
|------------------------------------------------------------------------------|--------------|--------------|
| <b>OPERATING ACTIVITIES</b>                                                  |              |              |
| Excess of revenue over expenditure                                           | \$3 605 554  | \$3 349 106  |
| Items not affecting cash and cash equivalents:                               |              |              |
| (Recovery) Losses of financial interest and loan guarantees                  | 152 400      | (2 400)      |
| (Gain) loss on disposal of investments                                       | (246 530)    | (795 019)    |
| (Gain) loss on disposal of fixed assets                                      | (13 383)     | 27 242       |
| Depreciation of fixed assets                                                 | 196 262      | 243 010      |
| Amortization of the discount and premium<br>on investments – net             | 271 929      | 169 161      |
|                                                                              | 3 966 232    | 2 991 100    |
| Changes in assets and liabilities related to<br>operations                   |              |              |
| Accounts receivable                                                          | 1 512 445    | 964 311      |
| Prepaid expenses and other                                                   | 3 576        | (32 356)     |
| Accounts payable                                                             | 223 011      | (315 936)    |
| Deferred Gouvernement du Québec transfers                                    | (1 322 671)  | (377 069)    |
| Temporary deposits on penalties                                              | (300 847)    | 263 688      |
| Amounts refundable                                                           | 1 440 566    | (371 327)    |
| Provision for contribution to the recovery facilities<br>improvement program | 54 130       | (239 838)    |
| Allowance for refund of deposits                                             | 109 774      | 35 996       |
| Allowance for payment of recovery incentives                                 | 16 728       | 4 797        |
|                                                                              | 1 736 712    | (67 734)     |
| Cash flows provided by operating activities                                  | 5 702 944    | 2 923 366    |
| <b>INVESTMENT ACTIVITIES</b>                                                 |              |              |
| Proceeds from disposal of investments                                        | 27 512 749   | 28 942 787   |
| Acquisition of investments                                                   | (27 672 777) | (33 155 507) |
| Acquisition of fixed assets                                                  | (158 881)    | (201 570)    |
| Proceeds from disposal of fixed assets                                       | 33 208       | 579          |
| Cash flows used for investment activities                                    | (285 701)    | (4 413 711)  |
| <b>INCREASE (DECREASE) IN CASH AND CASH<br/>    EQUIVALENTS</b>              | 5 417 243    | (1 490 345)  |
| <b>CASH AND CASH EQUIVALENTS,<br/>    BEGINNING OF YEAR</b>                  | 3 748 718    | 5 239 063    |
| <b>CASH AND CASH EQUIVALENTS,<br/>    END OF YEAR</b>                        | \$9 165 961  | \$3 748 718  |
| THE BREAKDOWN OF CASH AND CASH EQUIVALENTS IS AS FOLLOWS:                    |              |              |
| Cash on hand                                                                 | \$457 946    | \$1 003 303  |
| Short-term investments                                                       | 8 708 015    | 2 745 415    |
|                                                                              | \$9 165 961  | \$3 748 718  |

The notes are an integral part of these financial statements.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)****NOTES TO FINANCIAL STATEMENTS**  
as at March 31, 2005**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.

In order to foster recovery, reuse and recycling, the Société has implemented financial assistance programs aimed at businesses operating in these areas.

The Gouvernement du Québec mandated the Société to implement the integrated management program for used tires and the program for emptying used tire storage sites in Québec for the fiscal years 2001-2008.

The Société is also responsible for administering 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 Gouvernement du Québec entrusted the Société with the implementation and administration of the Government's financial assistance program for the development of waste management plans designed to provide financial support to the municipalities and regional county municipalities for the development of their management plan.

Finally, the Gouvernement du Québec entrusted the Société with the administration of 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 by supporting waste recovery, reuse and recycling projects.

Under section 3 of its incorporating legislation, the Société is an agent of the State and, consequently, not subject to federal or provincial income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Société were prepared by management in accordance with accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are recorded at cost and depreciated over their useful lives according to the linear method.

|                             | <u>Duration</u> |
|-----------------------------|-----------------|
| <b>Fixed assets</b>         |                 |
| Furniture and equipment     | 7 years         |
| Data processing equipment   | 5 years         |
| Leasehold improvements      | Term of lease   |
| <b>Intangible assets</b>    |                 |
| Software                    | 3 years         |
| Data processing development | 5 years         |

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

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**2. ACCOUNTING POLICIES (cont'd)**
**Long-term investments**

Bonds are recorded at amortized cost. Mutual fund units are recorded at cost. Discounts and bond premiums are amortized using the straight-line method over the duration remaining for each security. The amortization of discounts and premiums is recorded under investment income. Investment management fees are deducted from investment income.

**Deferred Gouvernement du Québec transfers**

Transfers obtained for specific programs are deferred and posted to results as income according to the expenditures related to them.

**Allowance for losses on loan guarantees**

The allowance for losses is calculated by evaluating potential losses on each activity individually, but cannot be less than 25% of the balance owed on outstanding loans.

**Allowance for the refund of deposits**

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 71.82% as at March 31, 2005 (2004: 74.98%), and at 83.24% for 10¢ containers (2004: 78.17%) and at 83.24% for 20¢ containers (2004: 81.80%).

**Allowance for the payment of recovery incentives**

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.

**Provision for contribution to the throw-away container recovery facilities improvement program**

A provision was established to cover the amounts needed for the Société's contribution to the throw-away container recovery facilities improvement program.

This provision is based on the lesser of the maximum contribution provided for and the costs incurred or to be incurred under the agreement on the consignment, recovery and recycling of throw-away soft drink containers.

**Revenue from the consignment of throw-away containers – net**

Revenue from the consignment for containers sold, reimbursements of consignment amounts and recovery incentives is calculated based on the declarations provided by parties to the beer agreement.

A provision is entered reimbursement of consignment amounts and recovery incentives for containers sold and recycled after the fiscal year-end or after expiry of the agreements.

In keeping with the agreements, declarations are subject, among other things, to inspection. Adjustments following these inspections are, where applicable, charged to revenue for the fiscal year in which they are known.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**2. ACCOUNTING POLICIES (cont'd)****Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that RECYC-QUÉBEC lacks sufficient information to apply the accounting procedure for defined benefit-plans.

**Cash flows**

The Commission's policy consists in presenting under cash and cash equivalents bank balances and short-term investments that can easily be converted in the short term to a known amount of cash, whose value is not likely to change significantly.

**3. REVENUE FROM INDUSTRIAL ORGANIZATIONS**

Under a paint container recovery agreement, twice a year, a non-profit organization designated by paint manufacturers must pay the Société an amount for information, awareness, education, coordination and results monitoring purposes.

Under a new agreement on the recovery and recycling of used oil, oil or fluid containers and used filters, a non-profit organization designated by this industry's businesses must pay a semi-annual contribution to the Société to cover costs related to coordination, agreement monitoring, assistance in attaining objectives, participation in information, education and awareness, development of markets and recovery and recycling technologies, results analysis and auditing.

**4. GREEN TAX ON TIRES – NET**

|                                        | 2005                | 2004                |
|----------------------------------------|---------------------|---------------------|
| Green tax on tires                     | \$22 691 094        | \$22 029 163        |
| Less:                                  |                     |                     |
| Administrative costs on tax collection | (340 237)           | (368 559)           |
|                                        | <u>\$22 350 857</u> | <u>\$21 660 604</u> |

**5. REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS – NET**

|                                                    | 2005               | 2004               |
|----------------------------------------------------|--------------------|--------------------|
| <b>Soft drinks &amp; others</b>                    |                    |                    |
| Consignment amounts on containers sold             | \$456 584          | \$500 477          |
| Reimbursement of consignment amounts               | (261 449)          | (297 330)          |
| Recovery incentive premiums                        | (26 411)           | (56 029)           |
|                                                    | <u>168 724</u>     | <u>147 118</u>     |
| Royalty – bottlers                                 | 722 177            | 714 144            |
| Fines acquired – bottlers                          | 1 803 406          | 2 490 778          |
| Other revenue                                      | <u>6 150</u>       | <u>3 500</u>       |
| Net revenue for the year (amounts carried forward) | <u>\$2 700 457</u> | <u>\$3 355 540</u> |



**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**5. REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS – NET (cont'd)**

|                                                    | 2005               | 2004               |
|----------------------------------------------------|--------------------|--------------------|
| Net revenue for the year (amounts brought forward) | \$2 700 457        | \$3 355 540        |
| <b>Beer</b>                                        |                    |                    |
| Consignment amounts on containers sold             | 20 230 803         | 18 375 810         |
| Reimbursement of consignments amounts              | (15 944 690)       | (14 408 455)       |
| Recovery incentive premiums                        | (2 423 339)        | (2 279 796)        |
|                                                    | 1 862 774          | 1 687 559          |
| Amount repayable to brewers                        | (1 298 348)        | (1 283 834)        |
|                                                    | 564 426            | 403 725            |
| Royalty – brewers                                  | 136 918            | 124 843            |
| Fines acquired – brewers                           | 184 799            | 108 018            |
| Other revenue                                      | 22 192             | 46 356             |
| Recovered management fees                          | 264 369            | 280 721            |
| Net revenue for the year                           | 1 172 704          | 963 663            |
|                                                    | <u>\$3 873 161</u> | <u>\$4 319 203</u> |

Under the agreement on the consignment, recovery and recycling of throw-away soft drink containers that took effect in December 1, 1999, the collection and reimbursement of consignment amounts and the payment of recovery incentive premiums are carried out by a non-profit organization designated by Québec soft drink bottlers.

The royalties and penalties provided for in the two agreements are paid to the Société and management fees are invoiced to the brewing industry for management of their agreement.

**6. USED-TIRE PROGRAM**

|                                           | 2005                | 2004                |
|-------------------------------------------|---------------------|---------------------|
| Site emptying                             | \$4 641 236         | \$6 479 518         |
| Transportation and stockpiling            | 7 647 195           | 6 924 974           |
| Re-employment assistance                  | 37 577              | 38 266              |
| Recycling assistance – primary processing | 4 423 037           | 3 628 927           |
| Technological development assistance      | 1 282               | 53 950              |
| Assistance for energy use                 | 928 706             | 539 790             |
| Discount for prepayment                   | 309 294             | 340 792             |
|                                           | <u>\$17 988 327</u> | <u>\$18 006 217</u> |

**7. OTHER NON-REFUNDABLE CONTRIBUTIONS**

|                                      | 2005             | 2004             |
|--------------------------------------|------------------|------------------|
| Information, education and awareness | \$374 295        | \$326 220        |
| Pilot projects and experiments       | 187 639          | 101 294          |
| Other projects                       | 50 072           | 146 163          |
|                                      | <u>\$612 006</u> | <u>\$573 677</u> |

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**8. GLASS RECOVERY ASSISTANCE PROGRAM**

The Société administers, in partnership with the Société des alcools du Québec, a glass recovery and recycling assistance program in Québec. Under existing agreements with the Société des alcools du Québec, all of the financial assistance paid for the transport and sorting of glass is reimbursed by the Société des alcools du Québec and 50% of the assistance allotted to processors for technological development designed to the recycle glass. Moreover, the management fees are paid to the Société.

**9. OPERATING EXPENSES**

|                                              | 2005               | 2004               |
|----------------------------------------------|--------------------|--------------------|
| Professional fees                            | \$234 422          | \$357 037          |
| Information highway                          | 56 851             | 57 096             |
| Courier services and telecommunications      | 54 402             | 61 294             |
| Rent, taxes and insurance                    | 386 134            | 375 085            |
| Travelling                                   | 119 864            | 182 566            |
| Equipment rental                             | 18 335             | 20 926             |
| Maintenance and repairs                      | 33 856             | 41 687             |
| Supplies and miscellaneous expenses          | 33 939             | 42 900             |
| Representation, meetings and conferences     | 32 960             | 47 017             |
| Training and upgrading                       | 35 966             | 45 376             |
| Subscriptions, documentation and assessments | 25 255             | 24 507             |
| Depreciation of fixed assets                 | 196 262            | 243 010            |
| (Gain) loss on disposal of fixed assets      | (13 383)           | 27 242             |
|                                              | <u>\$1 214 863</u> | <u>\$1 525 743</u> |

**10. SHORT-TERM INVESTMENTS**

Short-term investments, recorded at cost, represent discount notes and bonds maturing within a year. Fixed interest rates vary from 2.32% to 6.49%. These investments mature during the next fiscal year.

**11. ACCOUNTS RECEIVABLE**

|                                                      | 2005               | 2004                |
|------------------------------------------------------|--------------------|---------------------|
| Deposits                                             | \$2 161 941        | \$1 379 733         |
| Fines – bottlers and brewers (Note 17)               | 2 855 044          | 3 155 891           |
| Tires                                                | 3 105 492          | 3 192 698           |
| Gouvernement du Québec transfer receivable (Note 16) | 610 636            | 2 360 000           |
| Other                                                | 577 271            | 751 769             |
| Accrued interest                                     | 460 045            | 442 783             |
|                                                      | <u>\$9 770 429</u> | <u>\$11 282 874</u> |

**12. LONG-TERM INVESTMENTS**

|                                                            | 2005                | 2004                |
|------------------------------------------------------------|---------------------|---------------------|
| Bonds 2.66% to 5.83%, maturing on various dates up to 2013 | \$23 787 683        | \$25 467 519        |
| Bond mutual fund units                                     | 11 619 237          | 9 804 772           |
|                                                            | <u>\$35 406 920</u> | <u>\$35 272 291</u> |

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**12. LONG-TERM INVESTMENTS (cont'd)**

Bonds mature as follows:

|                     | 2005                | 2004                   |
|---------------------|---------------------|------------------------|
| 2006                |                     | \$6 109 123            |
| 2007                | \$8 387 350         | 8 998 641              |
| 2008                | 1 541 238           | 1 505 278              |
| 2009                | 2 005 745           |                        |
| 2010                | 9 762 240           | 2 555 831              |
| 2011 and thereafter | 2 091 110           | 6 298 646              |
|                     | <u>\$23 787 683</u> | <u>\$25 467 519</u> \$ |

The management fees for the fiscal year's investments total \$96 365 (2004: \$88 900).

**13. FIXED ASSETS**

|                             | 2005               |                             | 2004                |
|-----------------------------|--------------------|-----------------------------|---------------------|
|                             | Cost               | Accumulated<br>depreciation | Net                 |
| Fixed assets                |                    |                             |                     |
| Furniture and equipment     | \$430 625          | \$243 745                   | \$186 880           |
| Data processing equipment   | 326 389            | 218 967                     | 107 422             |
| Leasehold improvements      | 99 498             | 64 123                      | 35 375              |
| Sub-total                   | <u>856 512</u>     | <u>526 835</u>              | <u>329 677</u>      |
| Intangible assets           |                    |                             |                     |
| Software                    | 144 669            | 130 937                     | 13 732              |
| Data processing development | 224 664            | 106 082                     | 118 582             |
| Sub-total                   | <u>369 333</u>     | <u>237 019</u>              | <u>132 314</u>      |
| Total                       | <u>\$1 225 845</u> | <u>\$763 854</u>            | <u>\$461 991</u>    |
|                             |                    |                             | <u>\$519 197</u> \$ |

**14. BANK LOAN**

At March 31, 2005, the Société had a bank line of credit of \$200 000. The sums used bear interest at the prime rate.

**15. ACCOUNTS PAYABLE**

|                                                  | 2005               | 2004               |
|--------------------------------------------------|--------------------|--------------------|
| Salaries and fringe benefits                     | \$587 946          | \$429 472          |
| Accounts payable and accruals                    | 937 263            | 1 053 457          |
| Deposit on contract payable                      | 424 466            | 40 500             |
| Deposits and recovery incentives                 | 1 390 689          | 1 125 719          |
| Non-refundable contributions – used-tire program | 1 972 007          | 2 440 212          |
|                                                  | <u>\$5 312 371</u> | <u>\$5 089 360</u> |

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**16. DEFERRED GOUVERNEMENT DU QUÉBEC TRANSFERS**

|                                                                                                             | 2005               | 2004               |
|-------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Education, awareness, R&D and composting projects                                                           | \$47 088           | \$113 729          |
| Government assistance program for waste management plans                                                    | 2 546 668          | 4 413 334          |
| Financial assistance program for social economy businesses working in the context of waste management plans | 610 636            |                    |
|                                                                                                             | <u>\$3 204 392</u> | <u>\$4 527 063</u> |

During a previous fiscal year, the Société collected \$3 000 000 in Gouvernement du Québec subsidies applicable to support for educational projects, awareness, research and development and waste composting. At March 31, 2005, the amounts used for this purpose totalled \$2 952 912 including \$66 641 for the current fiscal year.

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 assistance program for the development of waste management plans. At March 31, 2005, the amounts used totalled \$6 693 332, \$1 866 666 in the present fiscal year.

Finally, under order-in-council dated March 30, 2005, the Société received a Gouvernement du Québec subsidy of \$610 636 for the implementation of the financial assistance program for social economy working in the context of waste management plans. Further, the Gouvernement du Québec committed to paying an additional \$1 689 364 under this program for a total maximum subsidy of \$2 300 000 over the Société's next 3 fiscal years.

The Société also committed to investing an additional \$3 400 000 for the same 3-year period.

**17. PROVISIONAL DEPOSIT ON FINES AND PROVISION FOR CONTRIBUTION TO THE RECOVERY FACILITIES IMPROVEMENT PROGRAM**

Under two consignment agreements in effect, Boissons gazeuses environnement and members of the beer agreement must pass the Société a provisional fine for unattained recovery objectives. This fine is levied at December 31, 2005 if the target objective for 2004 is not attained. Interest on fines not levied is payable to Boissons gazeuses environnement and annually to signatories of the beer agreement on a quarterly basis. At March 31, 2005, the amount of the provisional fines was \$2 855 044 (2004: \$3 155 891) broken down as follows:

|                                 | 2005               | 2004               |
|---------------------------------|--------------------|--------------------|
| Boissons gazeuses environnement | \$2 732 449        | \$2 971 092        |
| Members—brewers                 | 122 595            | 184 799            |
|                                 | <u>\$2 855 044</u> | <u>\$3 155 891</u> |

Following an amendment to the agreement signed during the fiscal year with Boissons gazeuses environnement, the provisional penalty for 2003 posted in 2004 for bottlers was reduced to \$1 167 686.

Since the recovery objective for 2003 stipulated in the agreements was not attained at December 31, 2004, the adjusted provisional fines for 2003, in the amount of \$1 988 205, was considered levied.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

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**17. PROVISIONAL DEPOSIT ON FINES AND PROVISION FOR CONTRIBUTION TO THE RECOVERY FACILITIES IMPROVEMENT PROGRAM (cont'd)**

However, under the same agreement, the Société agreed to use the fine levied to reimburse Boissons gazeuses environnement for the costs incurred under the recovery facilities improvement program. The Société's financial obligation is limited to the 75% of the fines levied during the year for unattained recovery objectives or the investment duly made by Boissons gazeuses environnement under the program during this same year or in the 120 days following the end of the year.

In fiscal 2004-2005, the Société committed to cover expenditures \$763 866 in the Recovery Facilities Improvement Program. The provision for this contribution totalled \$457 215 at March 31, 2005.

**18. AMOUNTS REFUNDABLE**

|                                                       | 2005               | 2004               |
|-------------------------------------------------------|--------------------|--------------------|
| Amounts refundable to Boissons gazeuses environnement | \$2 099 488        | \$691 181          |
| Amounts refundable to brewers                         | 844 339            | 812 080            |
|                                                       | <u>\$2 943 827</u> | <u>\$1 503 261</u> |

Under the consignment agreement, throw-away soft drink container recovery and recycling, in effect since December 1, 1999, Boissons gazeuses environnement, the organization representing the signatories, must refund certain amounts paid by the Société or to be refunded by the Société from some of the amounts it has disbursed. As at March 31, 2005, Boissons gazeuses environnement refundable amounts were estimated at \$2 099 488 (2004: \$691 181).

Under the agreement respecting the consignment, recovery and recycling of non-refillable beer containers, in effect from January 1, 2003 to December 31, 2005, the parties must reimburse to the Société the amount of the annual deficit (calendar year) arising from the deposit-return systems for their containers (consignment collected and reimbursed, recovery incentives and administrative expenses). In cases where the annual results calculated are too high, the 67% surplus will be returned to members. The balance is used for container recovery and recycling education and awareness and for the development of the residual matter technologies market. At March 31, 2005, the Société estimated the amounts refundable to brewers at \$844 339 (2004: \$812 080) which represent the share of the surplus of the consignment system paid to brewers.

**19. 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 either joint control or significant influence by it. The Société 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.

**20. COMMITMENTS**

The Société is committed through long-term leases for administrative offices. The Montréal lease ended on October 31, 2007 and includes a five-renewal option. For the Québec City lease, the new owner sent the Société a notice that the lease would not be renewed on March 31, 2006.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
as at March 31, 2005

**20. COMMITMENTS (cont'd)**

Rental costs for the fiscal year ending March 31, 2005 for these administrative offices were \$344 154. Minimum future payments are as follows:

|      |                  |
|------|------------------|
| 2006 | \$346 460        |
| 2007 | 232 492          |
| 2008 | <u>135 621</u>   |
|      | <u>\$714 573</u> |

**21. CONTINGENCIES**

The Société guarantees the losses that may be incurred by a financial institution on a loan granted to business. The Société signed a loan guarantee agreement for a maximum of \$490 000 for which the balance owing on the loan amounted to \$298 000 at March 31, 2005.

The Société undertook legal proceedings against a signatory of the agreement on consignment, recovery and recycling of throw-away beer bottles in order to recover indemnities totalling \$526 000 due under section 24 of this agreement. In the opinion of management and its legal advisors, it was impossible to predict the outcome when the financial statements were being prepared.

**22. FINANCIAL INSTRUMENTS****FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term investments**

At March 31, 2005, the fair value of investments of \$35 406 919 (2004: \$35 272 291) was \$35 867 863, (2004: \$36 521 581), given the capitalization of cash flows at the market rate for securities with similar maturity dates and interest rates.

**Short-term assets and liabilities**

The fair value of short-term financial instruments is equal to their book value given that they mature in the near future.

**Provision for losses on loan guarantees, provision for reimbursement of deposits, provision for payment of recovery-incentive premiums**

The fair value of these provisions is equal to their book value given that they are revalued annually.

**23. FUTURE FRINGE BENEFITS****Pension Plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Management Personnel Retirement Plan (MPRP) or Upper Management Retirement Plan (RRAS). These are interenterprise defined-benefit plan and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$116 161 (2004: \$100 024). The Société's liability towards these Government plans is restricted to its contributions as an employer.

**24. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)****MANAGEMENT'S REPORT**

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The financial statements of the Société québécoise de récupération et de recyclage (Recyc-Québec) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews 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 the auditing standards that are generally accepted in Canada. 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.

Robert Lemieux  
President General Director

Richard Boisvert, CA  
Vice-President, Finance and Administration

Québec, June 15, 2005

**SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**

## 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, 2005 and the statements of revenue and expenditure, equity and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of the operations and cash flows for the year then ended, in accordance with generally accepted accounting principles 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 General of Québec

Québec, June 15, 2005



**SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**  
(R.S.Q., c. I-20)

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                      | 2005             | 2004               |
|------------------------------------------------------|------------------|--------------------|
| <b>REVENUE FROM PUBLICATIONS AND SERVICES</b>        | \$12 033 323     | \$11 548 455       |
| <b>COST OF PUBLICATIONS AND SERVICES</b><br>(Note 3) | 7 701 378        | 7 037 749          |
| <b>GROSS MARGIN</b>                                  | 4 331 945        | 4 510 706          |
| <b>OVERHEAD AND ADMINISTRATIVE EXPENSES</b> (Note 4) | 3 835 189        | 3 354 281          |
| <b>NET REVENUE</b>                                   | <u>\$496 756</u> | <u>\$1 156 425</u> |

The notes are an integral part of these financial statements.

SURPLUS  
for the year ended March 31, 2005

|                                                                 | 2005               | 2004               |
|-----------------------------------------------------------------|--------------------|--------------------|
| <b>SURPLUS, BEGINNING OF YEAR</b>                               | \$1 000 000        | \$1 000 000        |
| <b>NET REVENUE</b>                                              | 496 756            | 1 156 425          |
|                                                                 | 1 496 756          | 2 156 425          |
| <b>NET REVENUE OWING TO THE GOUVERNEMENT DU QUÉBEC</b> (Note 5) | <u>(496 756)</u>   | <u>(1 156 425)</u> |
| <b>SURPLUS, END OF YEAR</b>                                     | <u>\$1 000 000</u> | <u>\$1 000 000</u> |

The notes are an integral part of these financial statements.

**SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**BALANCE SHEET  
as at March 31, 2005

|                                                                 | <u>2005</u>        | <u>2004</u>        |
|-----------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                   |                    |                    |
| <b>Current assets</b>                                           |                    |                    |
| Cash on hand                                                    | \$1 923 606        | \$1 103 055        |
| Accounts receivable                                             | 1 763 094          | 1 828 842          |
| Publications inventory                                          | 38 004             | 236 653            |
| Work in progress - publications                                 | 407 498            | 413 500            |
| Prepaid expenses                                                | <u>284 971</u>     | <u>172 961</u>     |
|                                                                 | 4 417 173          | 3 755 011          |
| <b>Fixed assets</b> (Note 6)                                    | <u>1 580 270</u>   | <u>1 342 037</u>   |
|                                                                 | <u>\$5 997 443</u> | <u>\$5 097 048</u> |
| <b>LIABILITIES</b>                                              |                    |                    |
| <b>Current liabilities</b>                                      |                    |                    |
| Accounts payable and accruals (Note 7)                          | \$1 853 958        | \$1 588 670        |
| Deferred revenue                                                | <u>1 026 513</u>   | <u>920 611</u>     |
|                                                                 | 2 880 471          | 2 509 281          |
| <b>Net revenue to be remitted to the Gouvernement du Québec</b> | 1 653 181          | 1 156 425          |
| <b>Provision for sick leave</b> (Note 10)                       | 436 289            | 387 339            |
| <b>Deferred lease inducement</b>                                | <u>27 502</u>      | <u>44 003</u>      |
|                                                                 | 4 997 443          | 4 097 048          |
| <b>SURPLUS</b>                                                  | <u>1 000 000</u>   | <u>1 000 000</u>   |
|                                                                 | <u>\$5 997 443</u> | <u>\$5 097 048</u> |

**COMMITMENTS** (Note 11)

On behalf of the Société,  
Guy Mercier  
Lucie Lauzière

The notes are an integral part of these financial statements.

## SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

### NOTES TO FINANCIAL STATEMENTS

March 31, 2005

#### 1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société québécoise d'information juridique (SOQUIJ) was established under a special act (R.S.Q., c. I-20) for the purpose of promoting research, processing and development of 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 is not subject to income tax.

#### 2. ACCOUNTING POLICIES

The financial statements of the Société were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements. The statement of cash flow is not shown as it would not provide any useful supplementary information regarding the Société's cash flow during the year.

##### Inventory and work in progress - publications

Inventory of publications is valued at the lower of cost and net realizable value. Work in progress related to publications is valued at cost. The cost of each publication includes direct design and publishing costs (labour, materials and printing) and related indirect costs. The contributions of certain agencies are deducted from this amount.

##### Fixed assets

Fixed assets are recorded at cost and depreciated on a straight-line basis at the following rates:

|                                             |           |
|---------------------------------------------|-----------|
| Office furniture and leasehold improvements | 5 years   |
| Data processing equipment                   | 3 years   |
| Data processing system                      | 7 years * |

\* 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.

##### Deferred revenue

Receipts from subscriptions and other publications are deferred and then transferred to operations upon shipment.

##### Deferred lease inducement

The lease inducement granted the Société by the lender represents the sum of free rent for the rental of administrative offices. The inducement is amortized using the straight-line method over the remainder of the lease, i.e. until November 2006.

##### Pension plans

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005**3. COST OF PUBLICATIONS AND SERVICES**

|                                                 | 2005               | 2004               |
|-------------------------------------------------|--------------------|--------------------|
| Salaries, fringe benefits and corporate charges | \$4 966 054        | \$4 757 976        |
| Depreciation of fixed assets                    | 444 809            | 335 600            |
| Advertising                                     | 483 587            | 353 333            |
| Formatting and printing                         | 435 950            | 460 754            |
| Equipment rental and maintenance                | 374 768            | 339 945            |
| Professional fees                               | 306 182            | 462 053            |
| Communications and shipping                     | 275 082            | 270 707            |
| E-data warehouse                                | 252 000            | 202 000            |
| Royalties                                       | 121 632            | 93 182             |
| Travelling and representation                   | 29 787             | 26 474             |
| Rent, taxes and insurance                       | 23 350             | 30 912             |
| Inventory variation                             | 204 650            | (70 049)           |
| Contributions of certain organizations          | (216 473)          | (225 138)          |
|                                                 | <u>\$7 701 378</u> | <u>\$7 037 749</u> |

**4. OVERHEAD AND ADMINISTRATIVE EXPENSES**

|                                                 | 2005               | 2004               |
|-------------------------------------------------|--------------------|--------------------|
| Salaries, fringe benefits and corporate charges | \$2 283 600        | \$2 015 346        |
| Rent, municipal taxes and insurance             | 807 870            | 793 789            |
| Professional fees                               | 160 467            | 88 926             |
| Subsidy to an agency                            | 130 000            | 60 000             |
| Travelling and representation                   | 96 053             | 87 461             |
| Documentation and supplies                      | 90 190             | 75 677             |
| Staff training                                  | 90 197             | 92 551             |
| Equipment rental and maintenance                | 45 409             | 33 337             |
| Depreciation of fixed assets                    | 43 371             | 37 828             |
| Communications and shipping                     | 42 263             | 45 381             |
| Other                                           | 45 769             | 23 985             |
|                                                 | <u>\$3 835 189</u> | <u>\$3 354 281</u> |

The fiscal year's amortization of the deferred lease inducement was \$16 501 (2004: \$16 501) recorded as a decrease in rental costs.

**5. SURPLUS**

The net revenue of 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, which is determined by the government, has been set at \$1 000 000.

**SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQIJ)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**6. FIXED ASSETS**

|                           | 2005               |                          | 2004               |
|---------------------------|--------------------|--------------------------|--------------------|
|                           | Cost               | Accumulated depreciation | Net                |
| Leasehold improvements    | \$26 294           | \$26 294                 |                    |
| Office furniture          | 358 540            | 250 334                  | \$108 206          |
| Data processing equipment | 2 571 223          | 2 014 403                | 556 820            |
| Data processing system    | 1 082 760          | 167 516                  | 915 244            |
|                           | <u>\$4 038 817</u> | <u>\$2 458 547</u>       | <u>\$1 580 270</u> |
|                           |                    |                          | <u>\$1 342 037</u> |

Acquisitions of fixed assets for the year amount to \$697 057 (2004: \$518 455).

**7. PAYABLES AND ACCRUED EXPENSES**

|                                                 | 2005               | 2004               |
|-------------------------------------------------|--------------------|--------------------|
| Salaries, fringe benefits and corporate charges | \$1 078 863        | \$1 008 544        |
| Other payables and accrued expenses             | 775 095            | 580 126            |
|                                                 | <u>\$1 853 958</u> | <u>\$1 588 670</u> |

**8. 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.

**9. RELATED PARTY TRANSACTIONS**

The Society 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 either joint control or significant influence by the Gouvernement du Québec. The Société 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.

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.

**10. FUTURE FRINGE BENEFITS**
**Pension plans**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP) or Management Personnel Retirement Plan (MPRP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement amount to \$237 033 (2004: \$200 307). The Société's liability towards this Government plan is restricted to its contributions as an employer.

**SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**10. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| Opening balance               | \$387 339        | \$381 436        |
| Charges for the year          | 206 858          | 182 153          |
| Benefits paid during the year | <u>(157 908)</u> | <u>(176 250)</u> |
| Closing balance               | <u>\$436 289</u> | <u>\$387 339</u> |

**11. COMMITMENTS**

The Société is committed to long-term leases for office space, warehousing and equipment, expiring on various dates until November 2009. The minimum lease payments for the coming fiscal years are as follows:

|      |                    |
|------|--------------------|
| 2006 | \$1 112 990        |
| 2007 | 462 939            |
| 2008 | 12 000             |
| 2009 | <u>8 000</u>       |
|      | <u>\$1 595 929</u> |

**12. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

**SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)****MANAGEMENT'S REPORT**

---

The financial statements of the Société québécoise d'information juridique (SOQUIJ) were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing 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 the auditing standards that are generally accepted in Canada. 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, June 3, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Société québécoise d'information juridique (SOQUIJ) as at March 31, 2005 and the statements of revenue and expenditure and surplus allocated to working capital for the year then ended. These financial statements are the responsibility of Société management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2005 and the results of its operations and cash flows 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 General of Québec

Québec, June 3, 2005

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**  
(R.S.Q., c. S-12.01)

REVENUE AND EXPENDITURE AND SURPLUS  
for the year ended March 31, 2005

|                                                                              | 2005               | 2004               |
|------------------------------------------------------------------------------|--------------------|--------------------|
| <b>REVENUE</b>                                                               |                    |                    |
| Gouvernement du Québec subsidies                                             |                    |                    |
| Operations                                                                   | \$53 985 300       | \$59 335 300       |
| Repayment of long-term debt                                                  | 723 521            | 723 521            |
| Transfer of deferred subsidies (Note 13)                                     | 810 123            | 1 126 997          |
| Activities involving the production and distribution of educational material | 1 300 538          | 1 301 267          |
| Other                                                                        | 731 700            | 470 306            |
|                                                                              | <u>57 551 182</u>  | <u>62 957 391</u>  |
| Sales, services and other revenue                                            | <u>13 798 473</u>  | <u>14 426 340</u>  |
|                                                                              | <u>71 349 655</u>  | <u>77 383 731</u>  |
| <b>EXPENDITURE (Note 3)</b>                                                  |                    |                    |
| Programming                                                                  | 35 551 012         | 38 716 540         |
| Production and technology                                                    | 14 475 768         | 13 031 779         |
| Administration                                                               | 11 822 476         | 12 970 769         |
| Marketing and communications                                                 | 5 556 268          | 6 128 904          |
| Institutional development                                                    | 451 496            | 2 445 630          |
| Depreciation of fixed assets                                                 | 3 695 924          | 3 856 236          |
| Financial expenses – net (Note 4)                                            | 53 270             | 234 547            |
| Share in the results of the satellite corporation                            | 48 559             | (24 959)           |
|                                                                              | <u>71 654 773</u>  | <u>77 359 446</u>  |
| <b>EXCESS EXPENDITURE OVER REVENUE BEFORE EXTRAORDINARY ITEM</b>             | (305 118)          | 24 285             |
| Gain resulting from an insurance claim (Note 5)                              |                    | <u>625 759</u>     |
| <b>EXCESS EXPENDITURE OVER REVENUE</b>                                       | (305 118)          | 650 044            |
| <b>SURPLUS, BEGINNING OF YEAR</b>                                            | <u>9 124 591</u>   | <u>8 474 547</u>   |
| <b>SURPLUS, END OF YEAR</b>                                                  | <u>\$8 819 473</u> | <u>\$9 124 591</u> |

The notes are an integral part of these financial statements.



**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**BALANCE SHEET  
as at March 31, 2005

|                                                                                            | 2005                       | 2004                       |
|--------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                                                              |                            |                            |
| <b>Current assets</b>                                                                      |                            |                            |
| Accounts receivable                                                                        | \$5 014 569                | \$4 814 957                |
| Gouvernement du Québec subsidies receivable<br>(Note 6)                                    | 1 425 259                  | 3 053 545                  |
| Programs produced and in production                                                        | 1 738 244                  | 1 461 356                  |
| Broadcastings and distribution rights and<br>participation in outside productions          | 26 551 250                 | 29 495 066                 |
| Production and technical supplies                                                          | 431 612                    | 412 325                    |
| Prepaid expenses                                                                           | 304 379                    | 244 108                    |
|                                                                                            | <u>35 465 313</u>          | <u>39 481 357</u>          |
| <b>Long-term investment</b> (Note 7)                                                       | 2 581 327                  | 2 629 886                  |
| <b>Gouvernement du Québec subsidies receivable</b><br>(Note 6)                             | 16 730 076                 | 12 858 596                 |
| <b>Fixed assets</b> (Note 8)                                                               | <u>17 222 347</u>          | <u>15 929 962</u>          |
|                                                                                            | <u><u>\$71 999 063</u></u> | <u><u>\$70 899 801</u></u> |
| <b>LIABILITIES</b>                                                                         |                            |                            |
| <b>Current liabilities</b>                                                                 |                            |                            |
| Outstanding cheques less cash on hand                                                      | \$573 876                  | \$1 446 628                |
| Short-term borrowings (Note 9)                                                             | 16 034 962                 | 14 040 214                 |
| Accounts payable and accruals (Note 10)                                                    | 8 884 561                  | 10 688 670                 |
| Broadcasting and distribution rights and participation<br>in outside productions – payable | 10 768 951                 | 10 467 624                 |
| Instalments on long-term debt (Note 11)                                                    | 1 781 524                  | 1 781 524                  |
| Deferred revenue (Note 13)                                                                 | 2 385 248                  | 2 177 918                  |
|                                                                                            | <u>40 429 122</u>          | <u>40 602 578</u>          |
| <b>Long-term debt</b> (Note 11)                                                            | 13 072 668                 | 14 854 192                 |
| <b>Gouvernement du Québec advance</b> (Note 12)                                            | 2 750 000                  | 2 750 000                  |
| <b>Deferred revenue</b> (Note 13)                                                          | 6 927 800                  | 3 568 440                  |
|                                                                                            | <u>63 179 590</u>          | <u>61 775 210</u>          |
| <b>SURPLUS</b>                                                                             | <u>8 819 473</u>           | <u>9 124 591</u>           |
|                                                                                            | <u><u>\$71 999 063</u></u> | <u><u>\$70 899 801</u></u> |
| <b>COMMITMENTS</b> (Note 15)                                                               |                            |                            |

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,  
Martine Tremblay  
Jean Lamarre

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)****CASH FLOWS**

for the year ended March 31, 2005

|                                                                       | <u>2005</u>                  | <u>2004</u>                  |
|-----------------------------------------------------------------------|------------------------------|------------------------------|
| <b>OPERATING ACTIVITIES</b>                                           |                              |                              |
| Excess expenditure over revenue over extraordinary element            | \$(305 118)                  | \$24 285                     |
| Items not affecting liquid assets:                                    |                              |                              |
| Depreciation of fixed assets                                          | 3 695 924                    | 3 856 236                    |
| Transfer of deferred income                                           | 1 181 442                    | (1 552 649)                  |
| Loss on disposal of fixed assets                                      | 7 993                        | 17 633                       |
| Share in the results of the satellite corporation                     | 48 559                       | (24 959)                     |
|                                                                       | <u>4 628 800</u>             | <u>2 320 546</u>             |
| Change in non-cash items elements related to operations (Note 14)     | <u>4 898 510</u>             | <u>(2 033 892)</u>           |
| Cash flows provided for operating activities                          | <u>9 527 310</u>             | <u>286 654</u>               |
| <b>FINANCING ACTIVITIES</b>                                           |                              |                              |
| Gouvernement du Québec subsidies receivable                           | (3 871 480)                  | 470 654                      |
| Borrowing from the Financing Fund                                     | 3 543 748                    | (3 942 038)                  |
| Long-term debt                                                        |                              | 5 035 246                    |
| Repayment of long-term debt                                           | <u>(1 781 524)</u>           | <u>(1 278 000)</u>           |
| Cash flows provided by financing activities                           | <u>(2 109 256)</u>           | <u>285 862</u>               |
| <b>INVESTMENT ACTIVITIES</b>                                          |                              |                              |
| Acquisition of fixed assets                                           | (4 999 402)                  | (1 765 096)                  |
| Proceeds from disposal of fixed assets                                | 3 100                        | 83 067                       |
| Gain resulting from an insurance claim                                |                              | 625 759                      |
| Cash flows used to investment activities                              | <u>(4 996 302)</u>           | <u>(1 056 270)</u>           |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>               | <u>2 421 752</u>             | <u>(483 754)</u>             |
| <b>DEFICIENCY IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | <u>(15 096 628)</u>          | <u>(14 612 874)</u>          |
| <b>DEFICIENCY IN CASH AND CASH EQUIVALENTS, END OF YEAR (Note 14)</b> | <u><u>\$(12 674 876)</u></u> | <u><u>\$(15 096 628)</u></u> |

The notes are an integral part of these financial statements.

## TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

---

### 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).

The main purpose of Télé-Québec is to operate an educational and cultural television broadcasting service and a service for producing and disseminating audiovisual, multimedia and television broadcasts.

### 2. ACCOUNTING POLICIES

The financial statements of Télé-Québec were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

#### Subsidy recording

Subsidies are recorded as revenues in the fiscal year during which the corresponding expenditures are incurred.

Subsidies receivable for fixed assets and their maintenance are recorded in the fiscal year in which Télé-Québec obtained the financing or carried out the work entitling it to these subsidies.

#### Programs produced and in production

Programs already produced and in production are entered at average cost. Cost includes the direct cost of supplies and services in addition to the share of labour costs and overhead allocated to 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 charged to operations according to the number of broadcasts made and on the following basis, except where they are posted based on the considerations attached to these rights:

50% for the first broadcast;  
30% for the second broadcast;  
20% for the third broadcast.

Rights on films deemed unusable are written off as soon as such a decision is made.

Télé-Québec's participation in outside productions and the attendant rights are deferred and then charged in full to operations when the program is first broadcast, except where they are posted based on the considerations attached to these rights.

#### Production and technical supplies

The inventory of production and technical supplies is recorded at cost or net realizable value, whichever is lower. Cost is determined according to the average cost method.

#### Long-term investments

Investment in a satellite corporation is recorded on an equity basis. The portfolio investment is recorded at acquisition value. When the investment posts a permanent decline in value, its book value is reduced to reflect this decline. This reduction is posted directly to the fiscal year's operations.

#### Fixed assets

Fixed assets are recorded at cost.

The antenna array includes buildings, materials, engineering services, infrastructures, direct labour costs, interest on interim financing during construction and the attendant overhead.

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**2. ACCOUNTING POLICIES (cont'd)****Fixed assets (cont'd)**

Fixed assets are depreciated according to the straight-line method at 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%                             |
| 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 |

**Cash and cash equivalents**

Télé-Québec's policy consists in presenting under cash and cash equivalents bank balances including bank overdrafts and loans from financial institutions contracted to meet short-term cash flow commitments.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that Télé-Québec lacks sufficient information to apply the accounting procedure for defined-benefit plans

**3. EXPENDITURE BY CATEGORY**

|                                                                                                    | <u>2005</u>         | <u>2004</u>         |
|----------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Salaries and fringe benefits                                                                       | \$24 449 695        | \$27 768 386        |
| Transportation and communications                                                                  | 3 847 635           | 4 232 926           |
| Professional, administrative and other services                                                    | 4 461 825           | 4 594 979           |
| Rent                                                                                               | 6 817 728           | 6 854 118           |
| Materials and supplies                                                                             | 2 089 756           | 2 235 052           |
| Broadcasting and distribution rights                                                               | 25 330 041          | 25 983 877          |
| Depreciation of fixed assets                                                                       | 3 695 924           | 3 856 236           |
| Direct expenses – independent productions                                                          | 1 015 076           | 1 836 370           |
| Direct expenses – service delivery                                                                 | 45 990              | 95 394              |
| Financial expenses                                                                                 | 53 270              | 234 547             |
| Accounts receivable written off                                                                    | 67 385              | 14 722              |
| Share in the results of the satellite corporation                                                  | 48 559              | (24 959)            |
| Loss on disposal of fixed assets                                                                   | 7 993               | 22 701              |
|                                                                                                    | <u>71 930 877</u>   | <u>77 704 349</u>   |
| Programs produced and in production, participation<br>in outside productions – change for the year | <u>(276 104)</u>    | <u>(344 903)</u>    |
|                                                                                                    | <u>\$71 654 773</u> | <u>\$77 359 446</u> |

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**4. FINANCIAL EXPENSES - NET**

|                                                                 | 2005            | 2004             |
|-----------------------------------------------------------------|-----------------|------------------|
| Interest on long-term debt                                      | \$1 145 937     | \$1 008 774      |
| Interest on loans from financial institutions                   | 53 484          | 233 963          |
| Interest on borrowings from Financing Fund                      | 55 692          | 141 606          |
| Gouvernement du Québec subsidy – interest<br>on short-term debt | (55 906)        | (141 022)        |
| Gouvernement du Québec subsidy – interest<br>on long-term debt  | (1 145 937)     | (1 008 774)      |
|                                                                 | <u>\$53 270</u> | <u>\$234 547</u> |

**5. GAIN RESULTING FROM AN INSURANCE CLAIM**

On April 22, 2001, an airplane collided with the Mont-Carmel telecommunications tower. The facilities of Télé-Québec, which was renting space on the tower, were destroyed. The costs incurred due to the accident are covered by an insurance policy.

**6. 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 fixed assets and their maintenance, minus capital repayments already made on long-term debt, and those to be made in the coming fiscal year.

**7. LONG-TERM INVESTMENTS**

|                                       | 2005               | 2004               |
|---------------------------------------|--------------------|--------------------|
| Investment in a satellite corporation | \$2 571 485        | \$2 620 044        |
| Portfolio investment                  | 9 842              | 9 842              |
|                                       | <u>\$2 581 327</u> | <u>\$2 629 886</u> |

**Investment in a satellite corporation**

Télé-Québec holds 25% of shares in a corporation whose main activity is to maintain a French-language television service on arts and culture.

**Portfolio investment**

Télé-Québec holds 4.44% of shares in a corporation whose main activity is signal management.

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**8. FIXED ASSETS**

|                                       | 2005                |                          |                     | 2004                |
|---------------------------------------|---------------------|--------------------------|---------------------|---------------------|
|                                       | Cost                | Accumulated depreciation | Net                 | Net                 |
| Antenna array, including improvements | \$28 987 474        | \$25 115 738             | \$3 871 736         | \$2 714 022         |
| Technical equipment                   | 23 378 582          | 15 979 232               | 7 399 350           | 7 361 213           |
| Furniture and fixtures                | 1 545 565           | 1 056 439                | 489 126             | 517 230             |
| Data processing equipment             | 7 298 837           | 5 899 048                | 1 399 789           | 1 450 205           |
| Automotive equipment                  | 919 120             | 582 821                  | 336 299             | 224 848             |
| Leasehold improvements                | 2 232 742           | 1 083 493                | 1 149 249           | 449 309             |
|                                       | <u>64 362 320</u>   | <u>49 716 771</u>        | <u>14 645 549</u>   | <u>12 716 827</u>   |
| Grouping of installations:            |                     |                          |                     |                     |
| Technical equipment                   | 4 620 644           | 3 355 607                | 1 265 037           | 1 572 985           |
| Furniture and fixtures                | 653 332             | 479 347                  | 173 985             | 217 540             |
| Leasehold improvements                | 4 272 508           | 3 134 732                | 1 137 776           | 1 422 610           |
|                                       | <u>9 546 484</u>    | <u>6 969 686</u>         | <u>2 576 798</u>    | <u>3 213 135</u>    |
|                                       | <u>\$73 908 804</u> | <u>\$56 686 457</u>      | <u>\$17 222 347</u> | <u>\$15 929 962</u> |

**9. SHORT-TERM BORROWINGS**

|                                                                   | 2005                | 2004                |
|-------------------------------------------------------------------|---------------------|---------------------|
| Loans from financial institutions<br>(rate as at March 31: 4.00%) | \$12 101 000        | \$13 650 000        |
| Loans from Financing Fund<br>(rate as at March 31: 2.50%)         | <u>3 933 962</u>    | <u>390 214</u>      |
|                                                                   | <u>\$16 034 962</u> | <u>\$14 040 214</u> |

**Loans from financial institutions**

Télé-Québec has credit with a financial institution that is renewed annually on September 30. At March 31, 2005, the maximum amount Télé-Québec could borrow was \$16 000 000. The sums borrowed bear interest at the prime rate when the credit margin is used and bear interest at the average 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.

**Borrowings from the Financing Fund**

Under its assets maintenance program, Télé-Québec has an authorized credit, which is renewable annually, with the Financing Fund for certain work and equipment purchases. At March 31, 2005, the maximum amount Télé-Québec could use was \$6 000 000. Amounts used bear interest at the average one-month bank acceptances rate plus 0.3% in lieu of issuing and management fees.

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

|                                      | 2005               | 2004                |
|--------------------------------------|--------------------|---------------------|
| Suppliers and accrued expenses       | \$5 233 687        | \$4 228 982         |
| Various accounts payable             | 73 081             | 2 253 207           |
| Salaries and fringe benefits payable | 3 577 793          | 4 206 481           |
|                                      | <u>\$8 884 561</u> | <u>\$10 688 670</u> |

**11. LONG-TERM DEBT**

|                                                                                           | 2005                | 2004                |
|-------------------------------------------------------------------------------------------|---------------------|---------------------|
| Bond, series "1", 11.25%, maturing May 25, 2008                                           | \$5 000 000         | \$5 000 000         |
| Borrowings on note from the Financing Fund of the<br>Gouvernement du Québec:              |                     |                     |
| 6.22% repayable with an annual instalment of \$554 479<br>the June 1, 2005 <sup>(a)</sup> | 3 326 874           | 3 881 353           |
| 6.22% repayable in annual instalments of \$469 106<br>until June 1, 2005                  | 469 106             | 938 211             |
| 4.798% repayable in annual instalments of \$503 525<br>until February 27, 2014            | 4 531 722           | 5 035 247           |
| 5.795%, repayable in annual instalments of \$254 415<br>until December 1, 2010            | <u>1 526 490</u>    | <u>1 780 905</u>    |
|                                                                                           | 14 854 192          | 16 635 716          |
| Instalments due within one year                                                           | <u>1 781 524</u>    | <u>1 781 524</u>    |
|                                                                                           | <u>\$13 072 668</u> | <u>\$14 854 192</u> |

Principal payments on the long-term debt over the next five fiscal years are as follows:

|      |             |
|------|-------------|
| 2006 | \$1 781 524 |
| 2007 | 1 314 926   |
| 2008 | 1 314 926   |
| 2009 | 6 314 926   |
| 2010 | 1 314 926   |

(a) In May 2005, Télé-Québec renegotiated its borrowing for 5 years at 3.828%, repayable in annual instalments of \$556 986 until May 10, 2010.

**12. GOUVERNEMENT DU QUÉBEC ADVANCE**

A \$2 750 000 advance was granted Télé-Québec for its investment in a satellite corporation. Where applicable, the advance will be repaid the date the satellite 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 accrues since the advance's disbursement and are payable as of the year the satellite corporation begins distributing profits annually, up to the amount distributed. Under the shareholder agreement, no profit distribution is authorized prior to August 31, 2007.

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**13. DEFERRED REVENUE**

|                                                                            | 2005               | 2004               |
|----------------------------------------------------------------------------|--------------------|--------------------|
| <b>Gouvernement du Québec subsidies</b>                                    |                    |                    |
| Subventions related to fixed assets for<br>repayment of the long-term debt |                    |                    |
| Opening balance                                                            | \$4 195 441        | \$4 770 334        |
| Deferred revenue for the fiscal year                                       | 4 929 482          | 552 104            |
| Transfer to revenue for the fiscal year                                    | (810 123)          | (1 126 997)        |
| Closing balance                                                            | 8 314 800          | 4 195 441          |
| Production and distribution of educational<br>Material                     | 4 040              | 4 578              |
| Specific projects                                                          | 633 300            | 1 240 000          |
|                                                                            | 8 952 140          | 5 440 019          |
| <b>Other revenue from outside productions</b>                              | 304 201            | 251 001            |
| <b>Rent collected in advance</b>                                           | 56 707             | 55 338             |
|                                                                            | 9 313 048          | 5 746 358          |
| Less: Current portion                                                      |                    |                    |
| Gouvernement du Québec subsidies                                           | 2 024 340          | 1 871 579          |
| Other revenue from outside productions                                     | 304 201            | 251 001            |
| Rent collected in advance                                                  | 56 707             | 55 338             |
|                                                                            | 2 385 248          | 2 177 918          |
|                                                                            | <u>\$6 927 800</u> | <u>\$3 568 440</u> |

**14. CASH FLOWS**

|                                                                                                          | 2005               | 2004                 |
|----------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| Change in non-cash elements related to operations                                                        |                    |                      |
| Variation in accounts receivable                                                                         | \$(199 612)        | \$316 509            |
| Variation in accounts receivable from the<br>Gouvernement du Québec                                      | 1 628 286          | (2 054 893)          |
| Variation in broadcasts completed and being produced                                                     | (276 888)          | (461 089)            |
| Increase in TV broadcasting and distribution rights and<br>participation in outside productions          | 2 943 816          | 1 792 212            |
| Variation in technical and production supplies                                                           | (19 287)           | 33 124               |
| Variation in prepaid expenses                                                                            | (60 271)           | 13 047               |
| Variation in accounts payable and accrued liabilities                                                    | (1 804 109)        | (491 734)            |
| Variation in TV broadcasting and distribution rights and<br>participation in outside productions payable | 301 327            | (3 358 986)          |
| Variation in deferred income                                                                             | 2 385 248          | 2 177 918            |
|                                                                                                          | <u>\$4 898 510</u> | <u>\$(2 033 892)</u> |



**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

**14. CASH FLOWS (cont'd)**

The shortfall of cash and cash equivalents shown in the cash flow statement includes the following amounts recorded in the balance sheet:

|                                        | 2005                | 2004                |
|----------------------------------------|---------------------|---------------------|
| Cheques outstanding minus cash         | \$573 876           | \$1 446 628         |
| Borrowings from financial institutions | 12 101 000          | 13 650 000          |
|                                        | <u>\$12 674 876</u> | <u>\$15 096 628</u> |

The interest paid during the fiscal year totalled \$1 236 914 (2004: \$1 252 321).

**15. 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 March 31, 2005, amount to \$6 036 647 (2004: \$6 683 698).

Minimum future payments are as follows:

|                     |                     |
|---------------------|---------------------|
| 2006                | \$5 898 906         |
| 2007                | 4 956 238           |
| 2008                | 4 464 250           |
| 2009                | 4 409 116           |
| 2010                | 4 313 384           |
| 2011 and thereafter | 38 419 147          |
|                     | <u>\$62 461 041</u> |

**16. PENSION PLANS**

The staff members of Télé-Québec participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are interenterprise defined-benefit plans and include guaranteed payments on retirement and death.

Télé-Québec's contributions charged to the year-end statement amount to \$834 117 (2004: \$857 277). Télé-Québec's liability towards these Government plans is restricted to its contributions as an employer.

**17. FINANCIAL INSTRUMENTS****Long-term debt**

At March 31, 2005, the fair value of the long-term debt of \$14 854 192 (2004: \$16 635 716) was \$16 430 539 (2004: \$18 788 110) given the capitalization of the cash flows at the market rate for securities with similar maturity dates and interest rates.

The fair value of short-term borrowings corresponds to the book value of these securities given that they are renewed in the near future.

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**17. FINANCIAL INSTRUMENTS (cont'd)****Other assets and liabilities**

The fair value of cash, accounts receivable, accounts payable and accrued expenses is equal to their book value given that they mature in the near future.

**Long-term investments**

The fair value of long-term investments cannot be estimated given the lack of a market for this type of investment.

**Gouvernement du Québec subsidies receivable**

At March 31, 2005, the fair value of Gouvernement du Québec subsidies receivable of \$18 155 335 (2004: \$15 912 141) was \$19 617 753 (2004: \$17 890 309).

**Gouvernement du Québec advance**

The fair value of the Gouvernement du Québec advance cannot be estimated given the lack of a market for this type of advance.

**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 either joint control or significant influence by it. Télé-Québec 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.

**19. SERVICE EXCHANGES**

Télé-Québec exchanged services over the fiscal year for approximately \$447 233 (2004: \$588 196). This amount is based on the fair value of the goods and services transferred. In cases where only the value received can be established more clearly, it was used to evaluate the exchange. These transactions do not significantly affect the net results of Télé-Québec's operations.

**TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)****MANAGEMENT'S REPORT**

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The financial statements of Télé-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing appropriate accounting policies that comply with the accounting principles that are generally accepted in Canada. 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 duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

Télé-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 has approved the financial statements. It is assisted by the audit committee, whose members are not management. The audit committee meets with management and the auditor, reviews the financial statements and recommends their approval to the board of directors.

The Auditor General of Québec has audited Télé-Québec's financial statements in accordance with the auditing standards that are generally accepted in Canada. 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.

Paule Beaugrand-Champagne  
President and Chief Executive Officer

Michèle Parent  
General Manager, Administration and Finance

Montréal, June 6, 2005

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**AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of Télé-Québec as at March 31, 2005 and the statements of revenue and expenditure, surplus and cash flows for the year then ended. These financial statements are the responsibility of Télé-Québec management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, Télé-Québec's financial position as at March 31, 2005 and the results of its cash flows 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 General of Québec

Québec, June 6, 2005

**TRIBUNAL ADMINISTRATIF DU QUÉBEC**  
(R.S.Q., c. J-3)

REVENUE AND EXPENDITURE  
for the year ended March 31, 2005

|                                                         | 2005               | 2004<br>(Reclassified) |
|---------------------------------------------------------|--------------------|------------------------|
| <b>REVENUE</b>                                          |                    |                        |
| Contribution from the Ministère de la Justice           | \$10 481 460       | \$9 993 200            |
| Other contributions (Note 4)                            | 18 525 215         | 17 956 800             |
| Rate-setting                                            | 216 146            | 105 340                |
| Interest on bank deposits and short-term investments    | 135 975            | 133 737                |
| Other                                                   | 25 548             | 26 682                 |
|                                                         | <u>29 384 344</u>  | <u>28 215 759</u>      |
| <b>EXPENDITURE</b>                                      |                    |                        |
| Salaries and fringe benefits                            | 19 870 260         | 20 136 061             |
| Rent                                                    | 3 447 993          | 3 446 233              |
| Transportation and communications                       | 1 181 548          | 1 122 844              |
| Professional and administrative services                | 1 530 958          | 1 493 328              |
| Maintenance and repairs                                 | 248 854            | 265 212                |
| Materials and supplies                                  | 260 802            | 240 134                |
| Amortization of fixed assets                            | 574 857            | 715 066                |
| Amortization of intangible assets                       | 453 055            | 443 622                |
| Interest on long-term debt                              | 224 954            | 238 161                |
| Other                                                   | 7 175              | 25 942                 |
|                                                         | <u>27 800 456</u>  | <u>28 126 603</u>      |
| <b>EXCESS (DEFICIENCY) REVENUE<br/>OVER EXPENDITURE</b> | <u>\$1 583 888</u> | <u>\$89 156</u>        |

The notes are an integral part of these financial statements.

**TRIBUNAL ADMINISTRATIF DU QUÉBEC**

DEFICIT  
for the year ended March 31, 2005

|                                                                    | <u>2005</u>                 | <u>2004</u>                 |
|--------------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>OPENING BALANCE</b>                                             |                             |                             |
| Previously established balance                                     | \$(5 303 494)               | \$(5 472 440)               |
| Adjustment                                                         |                             |                             |
| Posting of leasehold improvements and<br>a long-term debt (Note 3) | <u>(339 732)</u>            | <u>(259 942)</u>            |
| Adjusted balance                                                   | (5 643 226)                 | (5 732 382)                 |
| Excess revenue over expenditure                                    | <u>1 583 888</u>            | <u>89 156</u>               |
| <b>CLOSING BALANCE</b>                                             | <u><u>\$(4 059 338)</u></u> | <u><u>\$(5 643 226)</u></u> |
| <b>BALANCE COMPOSED OF:</b>                                        |                             |                             |
| Deficit attributable to the provision for transition allocations   | \$(5 784 518)               | \$(5 896 786)               |
| Surplus from other operations                                      | <u>1 725 180</u>            | <u>253 560</u>              |
|                                                                    | <u><u>\$(4 059 338)</u></u> | <u><u>\$(5 643 226)</u></u> |

The notes are an integral part of these financial statements.

## TRIBUNAL ADMINISTRATIF DU QUÉBEC

BALANCE SHEET  
as at March 31, 2005

|                                                      | 2005                       | 2004<br>(Reclassified)    |
|------------------------------------------------------|----------------------------|---------------------------|
| <b>ASSETS</b>                                        |                            |                           |
| <b>Current assets</b>                                |                            |                           |
| Cash on hand                                         | \$6 392 587                | \$3 831 470               |
| Accounts receivable and accrued interest             | 27 812                     | 36 484                    |
| Prepaid expenses                                     | 124 682                    | 30 945                    |
|                                                      | <u>6 545 081</u>           | <u>3 898 899</u>          |
| <b>Fixed assets</b> (Note 5)                         | 3 462 067                  | 3 772 214                 |
| <b>Intangible assets</b> (Note 6)                    | <u>1 360 964</u>           | <u>1 242 282</u>          |
|                                                      | <u><u>\$11 368 112</u></u> | <u><u>\$8 913 395</u></u> |
| <b>LIABILITIES</b>                                   |                            |                           |
| <b>Current liabilities</b>                           |                            |                           |
| Accounts payable and accruals                        | \$2 937 941                | \$2 539 313               |
| Instalments on long-term debt (Note 7)               | <u>216 615</u>             | <u>202 484</u>            |
|                                                      | 3 154 556                  | 2 741 797                 |
| <b>Long-term debt</b> (Note 7)                       | 2 971 050                  | 3 187 665                 |
| <b>Provision for transition allocations</b> (Note 8) | 5 784 518                  | 5 896 786                 |
| <b>Provision for sick leave</b> (Note 8)             | 2 687 247                  | 2 730 373                 |
| <b>Deferred contributions</b>                        | <u>830 079</u>             | <u>          </u>         |
|                                                      | 15 427 450                 | 14 556 621                |
| <b>DEFICIT</b>                                       | <u>(4 059 338)</u>         | <u>(5 643 226)</u>        |
|                                                      | <u><u>\$11 368 112</u></u> | <u><u>\$8 913 395</u></u> |

The notes are an integral part of these financial statements.

On behalf of the Tribunal,  
Jacques Forgues  
Roger Hakim

## TRIBUNAL ADMINISTRATIF DU QUÉBEC

## CASH FLOWS

for the year ended March 31, 2005

|                                                           | 2005                      | 2004<br>(Reclassified)    |
|-----------------------------------------------------------|---------------------------|---------------------------|
| <b>OPERATING ACTIVITIES</b>                               |                           |                           |
| Excess revenue over expenditure                           | \$1 583 888               | \$89 156                  |
| Elements not affecting cash:                              |                           |                           |
| Amortization of fixed assets                              | 574 857                   | 715 066                   |
| Amortization of intangible assets                         | 453 055                   | 443 622                   |
|                                                           | <u>2 611 800</u>          | <u>1 247 844</u>          |
| Change in non-cash elements linked to operations (Note 9) | <u>845 513</u>            | <u>(276 404)</u>          |
| Cash flows from operating activities                      | <u>3 457 313</u>          | <u>971 440</u>            |
| <b>INVESTMENT ACTIVITIES</b>                              |                           |                           |
| Acquisition of fixed assets                               | (152 204)                 | (134 366)                 |
| Acquisition of intangible assets                          | <u>(541 508)</u>          | <u>(486 271)</u>          |
| Cash flows used for investment activities                 | <u>(693 712)</u>          | <u>(620 637)</u>          |
| <b>FINANCING ACTIVITIES</b>                               |                           |                           |
| Cash flows used for financing activities:                 |                           |                           |
| Long-term debt reimbursement                              | <u>(202 484)</u>          | <u>(189 277)</u>          |
| <b>INCREASE IN CASH ON HAND</b>                           | 2 561 117                 | 161 526                   |
| <b>CASH ON HAND, BEGINNING OF YEAR</b>                    | <u>3 831 470</u>          | <u>3 669 944</u>          |
| <b>CASH ON HAND, END OF YEAR</b>                          | <u><u>\$6 392 587</u></u> | <u><u>\$3 831 470</u></u> |

The notes are an integral part of these financial statements.

**TRIBUNAL ADMINISTRATIF DU QUÉBEC****NOTES TO FINANCIAL STATEMENTS**

March 31, 2005

**1. CONSTITUTION AND PURPOSE**

The Tribunal administratif du Québec is a Government agency established under the Act respecting administrative justice (R.S.Q., C. J-3), and is 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 administratif du Québec is not subject to income tax.

**2. ACCOUNTING POLICIES**

The financial statements of the Tribunal were prepared by management in accordance with the accounting principles that are generally accepted in Canada. These statements include amounts based on best estimates and judgements.

**Fixed assets**

Fixed assets are recorded at cost and amortized over their previous service life on a straight-line basis at the following rates:

|                                          |       |
|------------------------------------------|-------|
| Office furniture and equipment           | 20%   |
| Office automation and computer equipment | 33.3% |
| Leasehold improvements                   |       |
| – major developments                     | 6.67% |
| – other                                  | 10%   |

**Intangible assets**

Intangible assets, comprising computer and software development, are recorded at cost and amortized based on the probable length of their use according to the straight-line method. They undergo a depreciation test when changes in the situation indicate that their book value may not be recovered. Any excess in the book value over the fair value may not be recoverable. Any excess in the book value over the fair value is posted to the results of the period in which the depreciation was determined.

|                          |       |
|--------------------------|-------|
| System development costs | 20%   |
| Software                 | 33.3% |

The systems being developed will be amortized when the project is completed and operational.

**Deferred contributions**

Subsidies related to fixed assets and intangible assets are deferred and amortized at the same rate as the fixed assets and intangible assets they finance.

**Pension plans**

The accounting procedure used for defined-contribution plans is applied to interenterprise government defined-benefit plans, given that the Tribunal lacks sufficient information to apply the accounting procedure for defined-benefit plans.

**3. CHANGE IN ACCOUNTING POLICY**

The financial statements for the fiscal year ended March 31, 2004 have been adjusted to post leasehold improvements and the long-term debt resulting from development work, which were formerly posted directly to expenditures.



**TRIBUNAL ADMINISTRATIF DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**3. CHANGE IN ACCOUNTING POLICY (cont'd)**

The retroactive application of this change increased (decreased) the following items of the financial statements:

|                                   | <u>2004</u> |
|-----------------------------------|-------------|
| Revenue and expenditure           |             |
| Rent                              | \$(427 437) |
| Amortization of fixed assets      | 269 066     |
| Interest on long-term debt        | 238 161     |
| Balance sheet                     |             |
| Fixed assets                      | \$3 050 417 |
| Instalments on the long-term debt | 202 484     |
| Long-term debt                    | 3 187 665   |
| Deficit                           | 339 732     |

**4. OTHER CONTRIBUTIONS**

|                                                     | <u>2005</u>         | <u>2004</u>         |
|-----------------------------------------------------|---------------------|---------------------|
| Ministère de l'Emploi et de la Solidarité sociale   | \$8 458 008         | \$8 716 400         |
| Société de l'assurance automobile du Québec         | 7 633 594           | 6 989 800           |
| Régie des rentes du Québec                          | 1 732 419           | 2 191 300           |
| Commission de la santé et de la sécurité du travail | 25 040              | 59 300              |
| Gouvernement du Québec                              | 676 154             |                     |
|                                                     | <u>\$18 525 215</u> | <u>\$17 956 800</u> |

In September 2004, the Tribunal received a Gouvernement du Québec subsidy in order to finance employer contributions posted March 31, 2003 in the provision for sick leave and vacation time.

**5. FIXED ASSETS**

|                                          | <u>2005</u>        |                          | <u>2004</u>           |
|------------------------------------------|--------------------|--------------------------|-----------------------|
|                                          | Cost               | Accumulated depreciation | Net                   |
|                                          |                    |                          | Net<br>(Reclassified) |
| Office furniture and equipment           | \$585 318          | \$467 680                | \$117 638             |
| Office automation and computer equipment | 2 120 301          | 1 852 447                | 267 854               |
| Leasehold improvements                   |                    |                          |                       |
| – major developments                     | 4 035 992          | 1 254 642                | 2 781 350             |
| – other                                  | 398 232            | 103 007                  | 295 225               |
|                                          | <u>\$7 139 843</u> | <u>\$3 677 776</u>       | <u>\$3 462 067</u>    |
|                                          |                    |                          | <u>\$3 772 214</u>    |

**TRIBUNAL ADMINISTRATIF DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**6. INTANGIBLE ASSETS**

|                           | 2005               |                          | 2004               |
|---------------------------|--------------------|--------------------------|--------------------|
|                           | Cost               | Accumulated depreciation | Net                |
| Systems development costs | \$2 451 933        | \$1 354 030              | \$998 040          |
| Software                  | 923 798            | 660 737                  | 244 242            |
|                           | <u>\$3 375 731</u> | <u>\$2 014 767</u>       | <u>\$1 242 282</u> |

**7. LONG-TERM DEBT**

|                                                                                                                                                                                   | 2005               | 2004<br>(Reclassified) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------|
| Borrowings from the Société immobilière du Québec,<br>fixed rates of 6.31% and 7.05%, repayable in<br>monthly instalments of \$35 620, with the final instalment<br>in April 2016 | \$3 187 665        | \$3 390 149            |
| Less: Instalments due within one year                                                                                                                                             | <u>216 615</u>     | <u>202 484</u>         |
|                                                                                                                                                                                   | <u>\$2 971 050</u> | <u>\$3 187 665</u>     |

The amounts of payments of principal to be made over the next five fiscal years break down as follows:

|      |           |
|------|-----------|
| 2006 | \$216 615 |
| 2007 | 231 735   |
| 2008 | 247 913   |
| 2009 | 265 225   |
| 2010 | 283 749   |

**8. FUTURE FRINGE BENEFITS**
**Pension plans**

The staff and the members of the Tribunal participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension of Plan of Management Personnel (PPMP). These are defined-benefit plans and include guaranteed payments on retirement and death.

The Tribunal's contributions charged to the year-end statement amount to \$652 170 (2004: \$575 355). The Tribunal's liability towards these Government plans is restricted to its contributions as an employer

Some of the Tribunal's staff members participate in none of the Government pension plans. Instead, they receive a sum equivalent to the employer's contribution for the duration of their contract. The amounts paid in this regard and posted to the results for the fiscal year total \$19 230 (2004: \$24 647).

**Provision for transition allocations**

The transition allocations are payable the most full-time members whose mandate is not renewed or 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.

**TRIBUNAL ADMINISTRATIF DU QUÉBEC**
**NOTES TO FINANCIAL STATEMENTS (cont'd)**  
**March 31, 2005**
**8. FUTURE FRINGE BENEFITS (cont'd)**
**Provision for transition allocations (cont'd)**

|                          | 2005               | 2004               |
|--------------------------|--------------------|--------------------|
| Opening balance          | \$5 896 786        | \$5 477 047        |
| Charge for the year      | 953                | 419 739            |
| Amounts used during year | (113 221)          |                    |
| Closing balance          | <u>\$5 784 518</u> | <u>\$5 896 786</u> |

**Provision for sick leave**

|                               | 2005               | 2004               |
|-------------------------------|--------------------|--------------------|
| Opening balance               | \$2 730 373        | \$2 771 825        |
| Charge for the year           | 400 051            | 335 155            |
| Benefits paid during the year | (443 177)          | (376 607)          |
| Closing balance               | <u>\$2 687 247</u> | <u>\$2 730 373</u> |

**9. CASH FLOWS**

|                                                   | 2005             | 2004               |
|---------------------------------------------------|------------------|--------------------|
| Change in non-cash elements linked to operations: |                  |                    |
| Accounts receivable and accrued interest          | \$8 672          | \$1 686            |
| Prepaid expenses                                  | (93 737)         | 14 825             |
| Accounts payable and accruals                     | 255 893          | (671 202)          |
| Provision for transition allocations              | (112 268)        | 419 739            |
| Provision for sick leave                          | (43 126)         | (41 452)           |
| Deferred contributions                            | 830 079          |                    |
|                                                   | <u>\$845 513</u> | <u>\$(276 404)</u> |

Interest paid during the fiscal year total \$2 004 (2004: \$5 883).

**10. CONTINGENCY**

Public-sector employees' collective agreements expired on June 30, 2003. On January 9, 2004, the Superior Court handed down a ruling in the wage equity file. On June 15, 2004, the government released the budgetary framework of its remuneration policy, which limits the wage adjustment in all public and parapublic sectors to 12.6% over a 6-year period, i.e. from April 1, 2004 to March 31, 2010. This budgetary framework covers the renewal of agreements with unionized employees, management health professionals as well as the wage equity file. The government is currently negotiating with the various associations. Consequently, the monetary impact remains undetermined for the Tribunal.

**TRIBUNAL ADMINISTRATIF DU QUÉBEC**

NOTES TO FINANCIAL STATEMENTS (cont'd)  
March 31, 2005

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**11. 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 either joint control or significant influence by it. The Tribunal 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.

**12. FINANCIAL INSTRUMENTS**

The fair value of the short-term financial instruments equals their book value given that they mature in the near future.

**13. COMPARATIVE FIGURES**

Certain 2004 figures were reclassified for consistency with the presentation adopted in 2005.

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**MANAGEMENT'S REPORT**

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The financial statements of the Tribunal administratif du Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein. This responsibility involves choosing accounting policies that comply with the accounting principles that are generally accepted in Canada. The financial information contained in the rest of the annual activity 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 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 Tribunal administratif 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 Tribunal's financial statements, in accordance with generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

M<sup>e</sup> Jacques Forgues  
President

Roger Hakim, CGA  
Director, Administration and  
Tribunal Fund

Québec, June 10, 2005

**TRIBUNAL ADMINISTRATIF DU QUÉBEC****AUDITOR'S REPORT**

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To the National Assembly

I have audited the balance sheet of the Tribunal administratif du Québec as at March 31, 2005 and the statements of revenue and expenditure, deficit and cash flows for the year then ended. These financial statements are the responsibility of Tribunal management. My responsibility consists in expressing an opinion on these financial statements based on my audit.

My audit was conducted in accordance with the auditing standards that are generally accepted in Canada. They require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes evaluating the accounting principles used, the significant estimates made by management and the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Tribunal's financial position as at March 31, 2005 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted 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, given the retroactive application for the change to the manner of recording leasehold improvements disclosed 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, June 10, 2005